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Texasgulf Annual Report 1973

AR24

Oil and Gas

Chemicals

Metals



Key

- Iron
- Exploration—Metals
- Exploration—Oil and Gas
- Potash
- ▲ Sulphur
- ▲ Metals
- ▲ Phosphate
- ▲ Soda ash

Product	Location	Output in 1973
Cadmium	Ontario	New zinc plant produced 1,133,300 pounds of cadmium.
Copper	Ontario	48,850 tons of refined copper were produced for Texasgulf from Kidd Creek concentrates by a custom smelter and electrolytic refinery in Quebec.
Forest products	Pennsylvania Ontario	252,000 acres of woodland produce timber for wood products and paper pulp.
Gypsum	North Carolina	115,000 tons of by-product gypsum were sold.
Iron	Western Australia	Robe River iron ore project in which Texasgulf has a 10.5 per cent interest shipped 4,590,000 tons of sinter fines and 3,742,000 tons of pellets.
Oil and Gas	United States Canada	248,700 barrels of oil, 17.8 billion cubic feet of gas and 2 million gallons of natural gas liquids were produced.
Phosphate fertilizer materials	North Carolina	Lee Creek's phosphoric acid production capacity was expanded by 50 per cent to a total of 510,000 tons per year of 100% P ₂ O ₅ acid.
Potash	Saskatchewan Utah	Texasgulf's share of production of potash from the Allan Potash Mines was more than 301,000 tons. Solution mining in Utah produced 212,000 tons.
Silver	Ontario	10,691,000 troy ounces were contained in Kidd Creek Mine concentrates.
Soda ash	Wyoming	Construction was begun on facilities to produce 1,000,000 tons of soda ash per year beginning in 1976.
Sulphur—Frasch	Texas, Louisiana, Mexico	Six Frasch mines produced 2,170,000 tons of sulphur.
Sulphur—Recovered	Alberta	Three plants recovered 469,000 long tons of sulphur from sour natural gas.
Sulphuric Acid	North Carolina Ontario	Lee Creek produced 948,100 tons. In Ontario, the new zinc plant produced 188,900 tons.
Tin	Ontario	A new circuit in the Kidd Creek concentrator will produce concentrates containing about 1½ million pounds of tin metal per year.
Zinc metal	Ontario	New zinc plant produced 107,100 tons. Annual production capacity is being increased to about 150,000 tons.
Zinc, copper and lead concentrates	Ontario	Kidd Creek concentrator produced 589,900 tons of zinc concentrates, 206,900 tons of copper concentrates and 36,900 tons of lead concentrates.

AR24

Texasgulf Inc.

200 Park Avenue
New York, N.Y. 10017

FILE

August 1, 1973

To Our Stockholders:

On July 25, 1973 Canada Development Corporation (CDC) made a tender offer to acquire 10,000,000 shares of Texasgulf at \$29 per share. This offer came suddenly and without warning to your company.

The tender offer, if successful, would result in effective control of your company by CDC, which is a Canadian corporation wholly-owned by the Canadian government.

Your management has been advised by counsel that the CDC offer raises substantial legal questions under the federal securities laws and the laws of Texas in which state Texasgulf is incorporated. Accordingly, on July 27, Texasgulf instituted legal proceedings in the U. S. District Court in Houston to enjoin CDC from proceeding with its tender offer. After a hearing before Federal District Judge Woodrow Seals that day, a temporary restraining order was issued restraining CDC from continuing with and consummating its tender offer pending a further hearing on August 6, 1973. The order was later modified to permit depositories to receive and hold tenders and shares pending further order of the court.

In the meantime, your management has carefully studied the offer and has now reached the conclusion that it should recommend that you do not tender your shares to CDC. We believe that the current market price of Texasgulf shares is unrealistically low in view of the growing strength of the company in all sectors of its operations. Moreover, it appears that CDC, if it gained control of the company, might be obligated to manage the company's affairs not necessarily in the best interests of the company and its shareholders but in the best interests of Canada Development Corporation. The two may not coincide.

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The great potential and strength of Texasgulf is apparent from the company's second quarter report to stockholders which was mailed to you on July 25. We invite you to give this report a careful reading. We should also like to call your attention to several developments which have occurred subsequent to the preparation and mailing of the second quarter report. As previously announced, Texasgulf has increased its prices for that portion of its copper and zinc sold in Canada and the United States - copper by seven cents per pound and zinc by two cents per pound. Today Texasgulf announced a price increase of \$3 per ton for its Western Canadian sulphur. These recent developments further illustrate the growing worldwide demand for metals, sulphur and fertilizer materials described in the second quarter report.

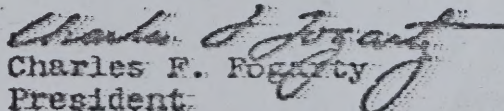
In balancing Texasgulf's present strength and the potential your management sees for its future against the CDC offer and its possible consequences, your management has concluded that the CDC offer is inadequate and not in the best interests of Texasgulf and its stockholders.

We appreciate your loyalty and support, and we will continue to inform you of material developments in this matter.

Sincerely,



Claude O. Stephens
Chairman



Charles F. Fogarty
President

For the period ended June 30, 1973

Second Quarter Sales and Earnings Increase**To Our Stockholders:**

Net income for the second quarter of 1973 amounted to \$14,132,000, or 46 cents per share, compared with \$6,130,000, or 20 cents per share in the second quarter of 1972.

Net income for the first six months of 1973 amounted to \$22,946,000, or 75 cents per share, compared with \$12,084,000, or 40 cents per share in the first half of 1972.

Gross sales, less outside zinc and lead smelting and refining charges, amounted to \$79,569,000 in the second quarter of 1973, compared with \$68,706,000 in the same period a year ago. Gross sales on the same basis for the first six months of 1973 were \$152,012,000 as against \$124,652,000 in the first half of 1972.

The improved earnings in the first six months and second quarter of 1973 reflect the contribution of the new Kidd Creek, Ontario zinc plant, which started in the second quarter of 1972, and the growing worldwide demand for metals and fertilizer materials. Sulphur prices improved slightly in the second quarter but were offset by higher production costs, mainly for gas, and by charges connected with the shutdown and re-

activation of the Frasch sulphur mine at Bully Camp, Louisiana. Sulphur price increases announced in the first quarter will not be fully reflected until the third and fourth quarters. Oil and gas continued to show modest profit improvements as did the operations of affiliated companies. Demand for all of the company's products is strong and growing, and the outlook for continued improvement is favorable.

Kidd Creek Metals Production

Production at the Kidd Creek mine and concentrator in Timmins, Ontario continued to be highly satisfactory during the second quarter, averaging about 10,000 tons of zinc, copper, lead and silver ore per day. Plans under study indicate the productive output of the concentrator can be increased by about 10 per cent with little additional capital expenditure.

Production at the new zinc plant improved, increasing in July to nearly its

208th Dividend Declared

On July 12 the board of directors declared a quarterly dividend of 15 cents a share payable on September 15, 1973 to stockholders of record on August 15.

rated capacity of 10,000 tons of special high grade and prime western zinc metal per month. Installation of the continuous leaching system is on schedule and should be in operation this fall. This is the first step in a series of changes which are designed eventually to increase the zinc plant's capacity by about 25 per cent to an annual rate of 150,000 tons of zinc metal, 285,000 tons of sulphuric acid, and 1,250,000 pounds of cadmium.

Installation of the new tin circuit in the Kidd Creek concentrator is on schedule for start-up late this year. It is designed to produce concentrates containing about 1½ million pounds of tin metal per year. Prices for tin, which were about \$1.80 per pound in September, 1972 when construction of the circuit was approved, have increased to more than \$2.35.

Underground mining facilities are now supplying 2,000 tons of ore per day. This will be gradually increased as the open pit is phased out over the next several years.

Production ore is presently being mined at the 800-foot level and dropped through 6-foot diameter ore passes to one of three 5,000-ton coarse ore bins at the 2,800-foot level. From here, the ore

feeds into a primary crusher which is the first underground gyratory crusher in Canada and the deepest such installation in North America. After crushing, the ore is carried by an 1,100-foot conveyor belt to the top of three fine ore bins of comparable capacity at the base of the shaft. Ore is loaded from these bins into 27½ ton skips which carry it to the surface at 40 miles per hour. The entire system appears to be working well. Eventually, it would permit mining substantially more than the present average of 10,000 tons of ore per day.

The underground exploration program of diamond drilling from various stations on the 2,800-foot level is proceeding. This had been interrupted during installation of the underground crushing and related facilities. Two new electric drills with a range of 3,500 feet are now operating. Horizontal and inclined drilling to greater depths and distances from the

2,800-foot level is under way. Several drifts are also planned from various levels to permit exploratory drilling at some distance away from the presently defined orebody.

Studies for the hydrometallurgical recovery of metal values from the Kidd Creek copper and lead concentrates are continuing.

Metals Demand Strong

Prices for metals advanced worldwide during the second quarter. Prices for copper remained firm at 60 cents per pound in North America. Further price increases announced in early June by some producers of copper in the United States were suspended by the Government's 60-day freeze on June 13. Copper is being sold on the London Metal Exchange at from 80 cents to more than \$1.00 per pound. As a result some Canadian and U.S. scrap and refined copper

is being sold in Europe and Japan rather than in the United States. It is anticipated that the United States duty of 0.8 cents a pound on imported copper will be suspended.

About 40 per cent of the current Kidd Creek zinc concentrate production is refined at the company's new zinc plant. Most of the balance and some from inventory is being sold in Europe and Japan. Practically all of Tg's zinc metal and some concentrates are sold in the United States.

European producers increased the price of zinc 1½ cents per pound to 24 cents in early June and to 25½ cents in early July. Texasgulf increased its North American price 1.3 cents a pound on June 14 to 22.3 for prime western zinc and 22.8 cents for special high grade. Texasgulf also notified United States customers that effective July 1 the company would no longer absorb the import duty of 0.7 cents per pound. The London Metal Exchange price for zinc reached 47 cents a pound on July 23. Lead prices remained firm at 16½ cents a pound in the United States.

Silver prices increased from an average of \$2.25 per ounce in March to more than \$2.70 during the second quarter.

Cadmium prices remained unchanged at \$3.75 a pound.

Phosphate Expansion on Schedule

Superphosphoric acid production at the Lee Creek Mine in North Carolina, reached record levels. The expansion of the sulphuric and phosphoric acid plants continued on schedule. The third train should be completed in December, increasing production capacity by 50 per cent, from 340,000 tons of P_2O_5 per year to 510,000 tons. Engineering work for the fourth train which will further increase production to 680,000 tons per year, is underway. Construction will begin following completion of the third train.

Expanding phosphoric acid production is an important factor in the growing demand for sulphur since nearly a ton of sulphur is required for each ton of P_2O_5 produced.

Additional mining equipment to increase phosphate rock production at Lee Creek is being planned. Dry fertilizer production facilities will also be expanded.

Texasgulf is constructing a 30,000-ton liquid sulphur storage terminal near

Shipments from Texasgulf's Lee Creek, North Carolina phosphate fertilizer materials plants set new records in the second quarter. Shown above are tank cars for shipping acid and gondolas loaded with by-product gypsum.

Expansion of Lee Creek's sulphuric and phosphoric acid plants continued on schedule. A third train increasing capacity by 50 per cent will start up late this year.

Morehead City, N. C. It will be able to handle more than 600,000 tons of sulphur annually. Plans are also being made to construct a 20,000-ton phosphoric acid terminal for export shipments.

Phosphate sales for the spring fertilizer season were excellent, and acid sales again set new records. The summer period, when sales are normally slow, may be better than in previous years as consumers attempt to rebuild their exhausted inventories. Prices for fertilizer materials in the export market are substantially higher than in the domestic market. Phosphate rock is in short supply world-wide. If higher prices overseas continue, the shortage of phosphate fertilizers in the domestic market will become even greater.

Lee Creek's sales of gypsum, a normally discarded by-product of phosphoric acid production, continued to increase for use as a soil conditioner.

Potash Demand Increasing

Potash sales improved and were above average for the spring season.

Production of potash by the solution mining process at the Cane Creek Mine near Moab, Utah, continues to operate successfully, although somewhat limited by abnormal rainfall. Significant improvements in evaporation rates have been achieved by using photodegradable dyes. Overall recovery will be increased by processing all of the tailings through the formerly unused crystallizer circuit to recapture potash which would otherwise be lost.

Operations at the Allan Potash Mines in Saskatchewan, Canada, in which Texasgulf has a 40 per cent interest, were normal in the second quarter. The Saskatchewan Government pro-rationing program continues to be based on an equal percentage of productive capacity for all mines, which is currently about 52 per cent.

The price for standard potash has been firm at \$20.25, with higher prices for premium grades.

Soda Ash Project Progressing

Further progress has been made in all phases of the project for the construction of facilities to produce one million tons of soda ash per year from Texasgulf's large southwestern Wyoming trona deposits. Underground mining facilities and a processing plant will be completed

in 1976 at an estimated cost of \$75 million.

Engineering design for a second underground shaft is well advanced, and the design of surface facilities has begun. Work will begin soon on sinking the second shaft, which will be 22-feet in diameter, to a depth of 1,500 feet. Bids for both the shaft and surface facilities have been received and construction of surface facilities should start in the spring.

Extensive work has already been done from a 16-foot diameter shaft previously sunk to a similar depth. The trona reserves include two flat-lying beds at depths of 1,370 and 1,420 feet. Five entries, each 5,000 feet long, have been developed in the upper bed and the lower bed also has been extensively investigated.

Studies made indicate little difficulty in meeting environmental requirements. Meetings have been held with officials of the State of Wyoming and the Environmental Protection Agency, and an environmental impact study is being prepared by the Colorado School of Mines Research Institute.

Market demand remains strong. Soda ash is reportedly in short supply and prices should rise. Numerous inquiries have been received from consumers of soda ash.

Sulphur Shipments at High Levels

Production at the Bully Camp Frasch sulphur mine in Louisiana resumed June 8 with a new source of much higher priced natural gas following the shutdown November 30, 1972, which was forced by the abrogation of the company's long-term contract with United Gas Pipe Line Company. Production was normal at the four Frasch sulphur mines in Texas. Production continued to improve at the Texistepic mine in Mexico. Tg has a 34 per cent interest in Compania Exploradora del Istmo which owns the mine. Liquid shipments from Mexico are limited by transportation facilities. Operations were normal at the company's three recovered sulphur plants in Alberta.

Texasgulf's overall sulphur shipments were at high levels. Prices are improving. Second quarter results partially reflected the \$3 per ton increase announced in January, but this was slightly more than offset by increased production costs, especially for natural gas. The full impact

of this sulphur price increase will be felt in the third and fourth quarters.

Export customers for sulphur in Europe and South America generally agreed to a \$9 per ton increase in increments of \$3 on July 1, 1973, \$3 on January 1, 1974, and \$3 on July 1, 1974.

Sulphur appears to be returning to a condition of tight supply except in Canada where inventories are presently locked in either because of a lack of transportation or the inability to ship over existing facilities at current prices. A further increase in Canadian prices will be needed to make these inventories available to world markets.

Oil and Gas Activities

A production platform was installed during the second quarter in East Cameron Block 273, offshore Louisiana, and a pipeline extension to tie this facility to the Columbia Gas system should be completed by mid-August. The price for this, and other new gas from the Gulf of Mexico is still a matter of some uncertainty. Texasgulf appeared before the Federal Power Commission the week of July 16. If the Commission rules favorably, the present area rate of 26 cents per thousand cubic feet could increase to 35 cents for Block 146, West Cameron, and 45 cents for Block 273.

Texasgulf and partners were successful in 7 out of 29 bids in the record Federal offshore Texas/Louisiana lease sale held on June 19. Total industry exposure bidding on 125 tracts was \$6.5 billion, with winning bids totaling \$1.6 billion. The Government has now officially awarded these seven tracts to Texasgulf and its partners, Phillips Petroleum, Allied Chemical and American Petrofina. Texasgulf's exposure in the bidding was \$50.8 million. Its share of the seven winning bids is \$11.5 million.

Texasgulf plans to participate aggressively in the next Federal offshore lease sale in the Eastern Gulf off Florida, Alabama and Mississippi now scheduled for mid-December. Texasgulf's partners in this area are Sun Oil, as operator, Consolidated Gas, Monsanto and Pacific Lighting.

Evaluation is continuing in the South Texas offshore area where a Federal lease sale could be held in 1974. Texasgulf is operator for a group in this area which includes Northern Natural Gas and a subsidiary of Compagnie Francaise des Petroles (CFP).

Drilling is continuing on other blocks offshore Louisiana acquired in earlier lease sales.

Canadian Oil and Gas

A five-well field extension program in the Provost Area of Alberta was completed in the second quarter with encouraging results. Some 20 additional development wells will be drilled. Gas and crude oil prices have been rising in Western Canada. Gas from one of Texasgulf's jointly owned properties recently increased in price from 16 cents to 26 cents per thousand cubic feet. Hopefully, all other properties will be permitted to follow the increase.

Senegal and Malagasy

Texasgulf continues to hold a 27 per cent interest with Compagnie Francaise des Petroles in a petroleum permit covering 3.3 million acres offshore Senegal and a one-third interest with CFP on 6 million acres offshore and one million acres onshore in the Malagasy Republic. These remain in force under their present terms until 1977 and may be extended longer, with some reduction in area.

Interest in the prospects of these areas has recently shown an increase. Discussions have been held with Hispanoil, the Spanish Oil Company, concerning participation in the Malagasy permit and with Royal Dutch Shell concerning Senegal. Both have indicated a

desire to undertake geophysical surveys at their sole cost for options to drill wells to earn a working interest.

Minerals Exploration Active

Exploration for minerals in the United States has been increased in view of the country's growing shortage of so many essential minerals. Current activities include massive sulphide programs in Alaska, Oregon, California, Idaho, Nevada, Minnesota and Wisconsin. A porphyry type copper program in the southwestern states of Arizona, New Mexico and Nevada is progressing well. Uranium is under active investigation.

In Canada, minerals exploration projects include a zinc and lead program in New Brunswick, a project in northwest Quebec where several anomalous areas have been found and an extensive airborne survey in the Northwest Territories. Many anomalies have been found and secured by lease or staking. Follow-up of the 1972 drilling program at the Robb Lake lead-zinc prospect in northeast British Columbia is now under way.

In Ireland a 61-square mile exploration permit 25 miles west of Dublin has been granted by the Irish Government. A geological and drilling program will begin soon to evaluate the permit.

In Western Australia, minerals exploration mainly for nickel and copper has been extended on numerous anomalies in the general areas surrounding the

Sherlock Bay and Mons Cupri deposits. Evaluation and feasibility studies continued on the Sherlock Bay nickel-copper prospect. Studies for copper recovery by leaching are underway and plans are being made to bring Mons Cupri into production at a rate of 1,500 to 2,000 tons of ore per day.

Western Australia Iron Ore

Robe River. Pellet plant production at the Robe River iron ore operation, in which Texasgulf has a 10.5 per cent interest, exceeded capacity during the second quarter. At present operating rates, the plant should produce 5 million tons of iron ore pellets per year compared with the design of 4.2 million tons. The original schedule called for shipping a total of 8.2 million tons of pellets and iron ore sinter fines this year and 10.3 million tons by 1975.

Robe River's entire production has been sold to a group of Japanese steel mills under long-term contracts. During the second quarter negotiations with the Japanese steel mills indicated that they would agree to price increases of 17 per cent on pellets and 13 per cent on fines which will help offset the effects of recent U. S. dollar devaluations and Australian revaluations.

Marandoo. Good progress is being made on a feasibility study for a 7-million-ton-per-year iron ore operation on the Mar-

(above) Evaluation and feasibility studies continue on the Sherlock Bay nickel-copper prospect in Western Australia. The site is near the coastal highway on the Indian Ocean, 26 miles east of Cape Lambert port facilities. (right) Good progress is being made on a feasibility study of a proposed 7 million ton per year iron ore project on the Marandoo deposit in Western Australia.

andoo iron ore deposit in the Wittenoom area of Western Australia. This is a proposed 50-50 joint venture with Hancock and Wright of Perth.

Samples of Marandoo ore were recently submitted to six Japanese steel companies whose tests confirmed the exceptionally high grade of the ore.

The low content of phosphorous and alumina with contained manganese and very high iron make the Marandoo deposit potentially one of the best yet found in Western Australia. Reserves of about 500 million tons of high-grade ore have been indicated and the prospect has not been completely outlined.

Research and Engineering

The July meeting of the board of directors was held at the company's new research laboratory at the Table Mountain Research Center near Denver. The two-story building is leased from the Colorado School of Mines Research Institute. The laboratory will do research work in metallurgy, chemical engineering, mining, geology, and geophysics, supplementing the research and engineering activities of the operating divisions. A similar building on an adjacent tract is being considered as headquarters for exploration in the United States and Mexico.

The continued loyalty and support of the company's stockholders, employees, customers and community neighbors are sincerely appreciated.

CLAUDE O. STEPHENS
Chairman

CHARLES F. FOGARTY
President

July 25, 1973

Kidd Creek underground mining system starts up.

Texasgulf Inc.

Consolidated Statement of Income

	Three Months Ended June 30		Six Months Ended June 30	
	1973	1972	1973	1972
Gross Sales	\$100,542,000	\$ 78,010,000	\$175,567,000	\$135,960,000
Less outside zinc and lead smelting and refining charges	20,973,000	9,304,000	23,555,000	11,308,000
Royalties, Interest and Other Income	79,569,000	68,706,000	152,012,000	124,652,000
	1,385,000	512,000	1,810,000	810,000
	80,954,000	69,218,000	153,822,000	125,462,000
Costs and Expenses				
Operating, delivery and other related costs and expenses, including exploration	48,392,000	50,343,000	99,257,000	92,299,000
Selling, general and administrative	3,645,000	3,375,000	6,793,000	6,352,000
Interest	3,035,000	3,070,000	5,876,000	5,927,000
Income taxes	11,750,000	6,300,000	18,950,000	8,800,000
	66,822,000	63,088,000	130,876,000	113,378,000
Net Income	\$ 14,132,000	\$ 6,130,000	\$ 22,946,000	\$ 12,084,000
Net Income Per Share	\$0.46	\$0.20	\$0.75	\$0.40
Dividends Per Share	\$0.15	\$0.15	\$0.30	\$0.30

Consolidated Balance Sheet

Assets	June 30 1973	December 31 1972
Cash and short-term investments	\$ 19,583,000	\$ 16,028,000
Accounts receivable	54,338,000	56,450,000
Inventories	83,351,000	83,514,000
Total Current Assets	157,272,000	155,992,000
Investments, advances and other assets	51,821,000	51,139,000
Recoverable Federal income taxes	12,100,000	12,100,000
Property, plant and equipment, net	508,986,000	492,199,000
	\$730,179,000	\$711,430,000
Liabilities and Stockholders' Equity		
Short-term notes payable	\$ —	\$ 2,000,000
Current portion of notes payable	3,750,000	23,750,000
Accounts payable and accrued liabilities	31,318,000	28,494,000
Income taxes payable	4,947,000	1,726,000
Deferred income taxes applicable to current assets	6,270,000	6,360,000
Total Current Liabilities	46,285,000	62,330,000
Notes and drafts payable, less current portion	179,240,000	172,140,000
Deferred credit—proceeds from advance gas sales	11,250,000	11,445,000
Deferred income taxes	94,260,000	80,261,000
Stockholders' equity	399,144,000	385,254,000
	\$730,179,000	\$711,430,000

The accompanying statements have been prepared in the ordinary course of business for the purpose of providing information with respect to the interim period ended June 30, 1973, and are subject to audit at the close of the year.

July 18, 1973

Gordon K. McKee, Jr., Vice President and Treasurer

1973 Highlights

- 3 1973 sales and earnings were highest in company's 64-year history.
- 5 Kidd Creek underground crusher and related facilities completed and production started.
- 6 Underground drilling at Kidd Creek indicated substantial additional ore reserves below the 2,800-foot level.
- 6 Expansion of production at Kidd Creek mine and concentrator to about 5 million tons per year planned. Copper smelter and refinery being studied.
- 7 Metals outlook continues strong.
- 9 Expansion of phosphate fertilizer production facilities at Lee Creek, North Carolina completed. Further major expansion planned.
- 9 Potash operations improving in Utah and Saskatchewan.
- 11 Construction began on Wyoming facilities to produce 1,000,000 tons of soda ash per year beginning in 1976.
- 11 Outlook is for continued strong demand for sulphur and other agricultural and chemical products. Price controls lifted on most fertilizer materials.
- 14 Oil, gas and condensate production to increase.
- 14 Texasgulf and partners successful in bidding in two major Federal offshore Gulf of Mexico lease sales.
- 17 Minerals exploration is active worldwide.
- 18 Robe River iron ore operation completes first year. Progress made on Marandoo and other Western Australian iron ore projects.
- 20 New officers and directors elected.
- 21 Dividend increased.
- 22 Financial review and statements.

Annual Meeting. The annual meeting of stockholders will be held in the Houston Club Building, Houston, Texas on Thursday, April 25, 1974. Notice of the meeting, proxy statement and proxy will be sent to stockholders on or about March 25, 1974.

Texasgulf's Form 10-K Report to the Securities and Exchange Commission for 1973 will be available upon request to the Corporate Secretary, Texasgulf Inc., 200 Park Avenue, New York, N.Y. 10017

Comparative Highlights

	1973	1972	1971	1964*
Gross sales	\$449,375,000	\$316,048,000	\$271,324,000	\$ 70,370,000
Less outside zinc and lead smelt- ing and refining charges	<u>\$ 85,599,000</u>	<u>\$ 45,506,000</u>	<u>\$ 53,625,000</u>	<u>\$ —</u>
	\$363,776,000	\$270,542,000	\$217,699,000	\$ 70,370,000
Income before extraordinary charge	\$ 73,922,000	\$ 30,562,000	\$ 25,226,000	\$ 9,883,000
Extraordinary charge net of tax ...	\$ —	\$ —	\$ (4,675,000)	\$ —
Net income	\$ 73,922,000	\$ 30,562,000	\$ 20,551,000	\$ 9,883,000
Income per share before extraordinary charge	\$ 2.43	\$ 1.01	\$.83	\$.32
Net income per share	\$ 2.43	\$ 1.01	\$.68	\$.32
Dividends per share	\$.64	\$.60	\$.60	\$.13½
Working capital	\$114,176,000	\$ 93,662,000	\$ 87,050,000	\$ 84,636,000
Ratio of current assets to current liabilities	2.7 to 1	2.5 to 1	2.5 to 1	7.7 to 1
Total assets	\$775,967,000	\$711,430,000	\$670,016,000	\$220,779,000
Notes payable, less current portion	\$155,990,000	\$172,140,000	\$168,519,000	\$ 55,000,000
Stockholders' equity	\$440,366,000	\$385,254,000	\$372,691,000	\$135,709,000
Number of employees as of Dec. 31	3,971	3,805	3,291	1,538
Number of stockholders of record Dec. 31	64,841	80,247	82,511	50,821
Average number of shares outstanding	30,417,336	30,395,912	30,386,007	30,037,566

*Per share data and average number of shares outstanding adjusted to reflect 3-for-1 stock split May 6, 1968.

Texasgulf's shares are listed on the New York Stock Exchange under the symbol TG and on the Toronto Stock Exchange under the symbol TXG.

To Our Stockholders:



Richard D. Mollison

Charles F. Fogarty

Texasgulf's sales and earnings in 1973 were the highest in the company's 64-year history, reflecting continuing diversification and expansion of operations, strong demand for metals, fertilizer materials and other natural resources, together with higher prices for many products, especially in the latter part of the year.

Gross sales in 1973 amounted to \$449,375,000, compared with \$316,048,000 in 1972. Sales after outside zinc and lead smelting and refining charges were \$363,776,000 in 1973 as against \$270,542,000 in 1972, an increase of 34 per cent.

Net income for 1973 was \$73,922,000, or \$2.43 per share, compared with \$30,562,000, or \$1.01 per share in 1972, an increase of 142 per cent.

The improved sales and earnings resulted from Texasgulf's ability to help supply the increasing world demands for metals—zinc, copper, silver, lead and cadmium—and agricultural and chemical materials, phosphates, potash, and sulphur; all of which have been at record high levels. Oil and gas earnings showed a slight decline due primarily to dry hole charges, write-offs and higher operating costs. Other operations, such as timber, improved modestly. There was also an increase in the total amount reported as Texasgulf's share of the profits of affiliated companies.

Contributing to the increases in sales and earnings in 1973 were price increases for zinc, copper and silver, greater production and sales of zinc metal from the company's new plant at Timmins, Ontario, and high levels of zinc concentrate sales. The company's sales of dry fertilizer materials and phosphoric acid were at record highs. Prices of phosphate fertilizers were substantially above their previously depressed levels. There was also some price improvement for potash and for sulphur late in the year.

Texasgulf's major products sold in the United States were subject to government price controls for most of 1973. Phosphate and potash products were exempted from controls in late October but domestic sulphur remains controlled and is now selling at the maximum permitted price. Sulphur price increases during the year were barely sufficient to cover increased costs, particularly for natural gas. Further increases are needed to provide an incentive for exploration and increased production. Crude oil production remains subject to price controls. Natural gas prices are subject to Federal Power Commission ceilings which are unrealistically low.

In 1973 Texasgulf made further progress toward its goal of becoming one of the world's largest and most

profitable natural resources companies. In each of three basic areas—metals, chemicals and oil and gas—operations were expanded, and the foundation was prepared for still greater growth in the future.

1974 will mark the fifteenth year of Texasgulf's planned program of growth and diversification which was initially outlined in December, 1959. Texasgulf has now grown from essentially a one-product company to an important supplier of many natural resources, including 10 of the 16 essential elements of a modern economy and two of the five essential energy sources.

Texasgulf now produces cadmium, copper, iron, lead, phosphorus, potassium, silver, sulphur, tin and zinc. These elements are sold in the form of metals, metal concentrates, phosphate fertilizers, and potash fertilizers, in addition to the original product, elemental sulphur. Sodium, in the form of soda ash, will be added in 1976 when the trona mine and processing plant is completed in southwestern Wyoming. Texasgulf also produces some oil and gas, the two most important energy sources, and forest products in the United States and Canada. Exploration programs for coal and uranium, the next most important energy sources are under way. The company is also studying the possible development of other natural resources, including nickel in Australia and platinum in Africa.

As a result of its tender offer at \$29 per share, the Canada Development Corporation (CDC) now owns about 30 per cent of the company's 30.4 million shares

outstanding. In view of Texasgulf's major operations in Canada, CDC's stock ownership and representation on the Tg board could be helpful in achieving the long-range objectives of Texasgulf.

All of the company's major products are in short supply. Except for sulphur, prices are at relatively high levels and worldwide demand for all products is expected to continue strong. The company is in a sound financial position and will be able to meet the costs of further planned expansion. The outlook is favorable in 1974 for continued improvement in both sales and earnings.

Metals Operations

Production by Texasgulf's wholly-owned subsidiary, Ecstall Mining Limited, at the Kidd Creek Mine in Timmins, Ontario, continued in 1973 at the previous years' high levels of more than 3.6 million tons of ore, while work began during the year on plans to expand mine production to nearly 5 million tons annually.

Sales of metals and concentrates from the Kidd Creek operations, after outside zinc and lead smelting and refining charges, amounted to \$214,930,000 in 1973 compared to \$146,640,000 in 1972.

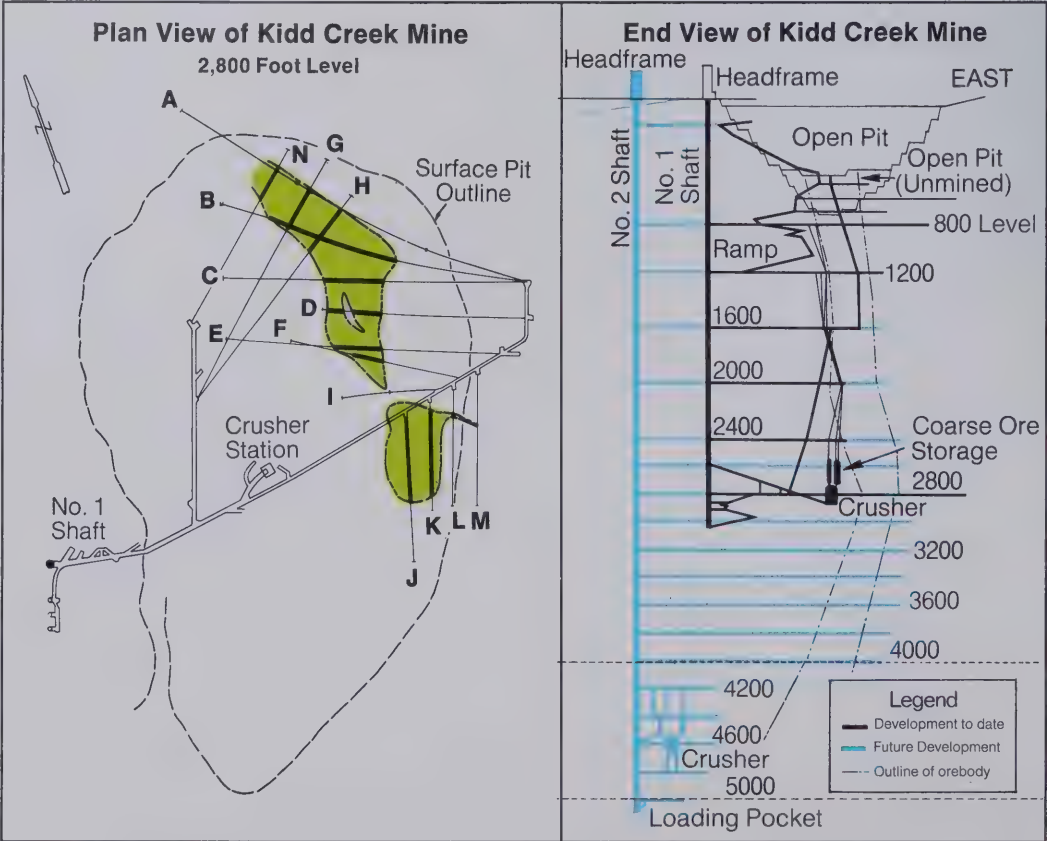
In 1973, 3,610,000 tons of ore were produced and processed, compared with 3,628,000 in 1972. Production included:

(left) Plan view, looking down at the 2,800-foot level, shows outline of the Kidd Creek ore body at that level.

(right) End view of Kidd Creek Mine shows cross-section of open pit mine, underground development to 2,800 feet and future shaft to 5,200 feet.

Logs of Horizontal Drill Cores

Hole No.	Core Length Feet	Grade		
		Oz/T	%	
		Ag	Cu	Zn
A	6	0.20	1.32	0.19
	10	0.74	1.18	0.35
	5	0.14	1.00	0.15
B	564	0.69	4.77	0.28
	9	0.34	1.07	0.12
C	170	0.70	2.81	0.93
	76	0.80	0.18	11.15
D	45	0.97	0.05	3.32
	80	0.25	1.85	0.28
	69	3.10	0.25	5.15
E	210	3.28	0.12	8.75
F	128	4.93	0.28	7.64
G	193	0.52	2.09	1.93
H	220	1.13	7.36	1.38
I	10.5	0.32	0.87	0.13
J	345	1.61	5.15	2.07
K	356	0.85	4.57	1.45
L	11.5	0.56	0.58	8.81
M	2	0.44	0.30	9.19
N	153	0.53	6.45	0.60



	1973	1972
Copper concentrates (short tons) (25% copper)	205,600	182,200
Copper-silver concentrates (short tons) . .	1,300	—
Lead concentrates (short tons)	36,900	42,100
Zinc concentrates (short tons) (52% zinc)	589,900	616,700
Zinc metal (short tons)	107,100	60,100
Sulphuric acid (short tons)	188,900	120,000
Cadmium (pounds) in zinc concentrates . .	2,960,000	3,034,000
Cadmium metal (pounds)	1,133,300	172,800
Silver contained in concentrates (troy oz.)	10,691,000	13,039,000

The copper-silver concentrate is a new product first made in 1973. It contained about 400 ounces of silver per ton formerly recovered in the lead concentrates.

The cadmium metal shown above is produced in the zinc plant at Timmins from part of the zinc concentrate production.

In 1973, payment was received for about 80 per cent of the silver contained in concentrates, including 2,862,700 ounces of silver returned by the refinery for direct sale by Tg.

Underground mine. Installation of the underground crusher and related equipment was completed in 1973 at the Kidd Creek Mine. By mid-year about 2,000 tons of ore per day was being supplied from underground, replacing equivalent production from the open pit mine which will be phased out gradually over the next few years.

During the last four years underground mining operations have been developed from a shaft 3,000 feet in depth. The shaft is circular in cross-section with an inside diameter of 24 feet. Mining levels have been opened from the shaft at intervals of 400 feet from a depth of 800 feet down to 2,800 feet. In addition to the shaft an incline ramp provides access from the surface to the 800- and 1,200-foot levels, and sub levels. The ramp is being extended and will eventually reach the shaft bottom. Work to date has been mainly on the 800- and 1,200-foot levels which are now almost fully developed for stoping, and mining has begun on the 800-foot level. Stopes are laid out systematically within the orebody, leaving alternating pillars. Stopes will be back filled after mining, and the pillars will be removed to achieve complete ore recovery. Ore mined above the 2,400-foot level is dropped through a system of ore passes to coarse ore bins above the primary crusher on the 2,800-foot level.

The crushing plant is the first underground installation of a gyratory crusher in Canada and is believed to be the deepest and one of the largest such installations in North America. Crushed ore is conveyed to fine ore bins at the base of the shaft, loaded into 27-ton skips and hoisted to the surface at speeds of about 40 miles per hour. The hoist is at the top of a 240-foot concrete headframe on the surface above the shaft.

The mining system utilizes modern trackless diesel powered equipment to give flexibility and efficiency to the underground operation. Production of underground

Texasgulf's Kidd Creek metals operation in Timmins, Ontario continues to expand. A copper smelter and refinery are being planned which would be constructed in the foreground of this aerial view of the concentrator and zinc plants.



ore amounted to 113,000 tons in 1972 and increased to 458,100 tons in 1973. In 1974 it will approximate 1,000,000 tons. By 1978 total mine production should be from underground operations.

Underground drilling. Additional drilling of horizontal holes on the 2,800-foot level of the Kidd Creek Mine has indicated that the orebody swings to the northwest and extends well beyond earlier projections made from the upper levels.

At present, three electric drilling machines are being used to explore the downward extensions of the orebody. Two or three electric drills will be kept busy for the next several years, drilling both horizontal and inclined holes in all directions from strategically located underground stations on various levels.

Ore reserves. From the start of operations in November, 1966 through December 31, 1973, the Kidd Creek Mine produced a total of 24,880,836 tons of ore that assayed 1.53 per cent copper, 0.39 per cent lead, 9.73 per cent zinc and 4.26 ounces of silver per ton.

In our 1973 third quarter report, ore reserves remaining above the 2,800-foot level were estimated at about 95,000,000 tons with higher copper and lower zinc content than that in the ore mined to date. The gross value appears to be increasing with depth as the high copper values probably more than offset the lower zinc values. Drilling since the third quarter report was released has

resulted in a moderate increase in the tonnage and grade estimates. Ore reserves are changing as additional information is acquired from exploration and development work. It is also evident from this deep inclined drilling that there is a substantial tonnage of ore below the 2,800-foot level which extends downward to well below the 4,000-foot level. There is not yet sufficient information to provide a picture of the shape of the orebody at depth and to permit computation of ore reserve tonnage and grade.

Deep drilling is continuing and new ore reserve calculations will be made as early as possible.

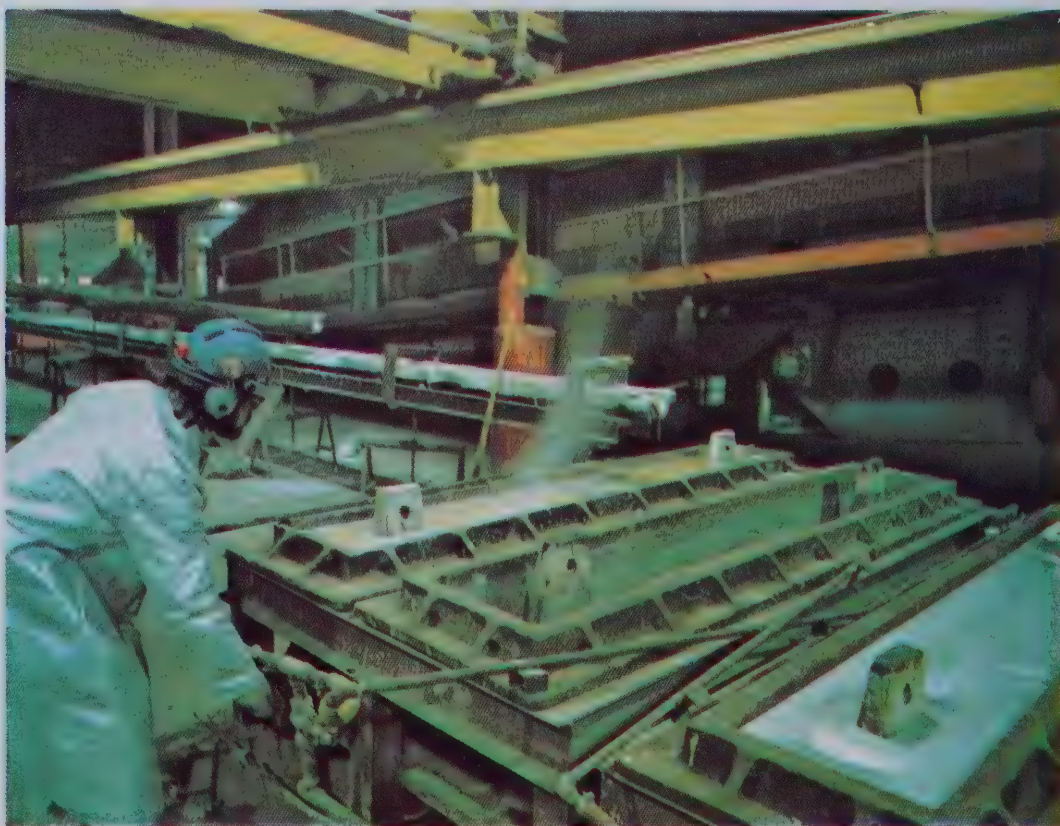
A deep drill hole completed in February, 1974 from a station on the 2,800-foot level north of the shaft at a bearing of north 34° east and a dip of minus 52°, included a 413-foot intersection assaying 5.54 per cent copper, 0.8 ounces per ton silver, and 0.59 per cent zinc. The vertical depths at the beginning and end of the above intersection were 3,640 feet and 3,964 feet respectively. Low-grade copper mineralization continued for another 250 feet of drill core.

Expansion of production planned. Expansion of mine production to about 5 million tons of ore per year is planned. This will require the sinking of a new shaft to the 5,200-foot level for mining below the 2,800-foot level and enlargement of the concentrator from three processing circuits to four.

The capital costs for this increase in production, in-



Production is being increased at the Kidd Creek zinc plant by conversion to continuous leaching and purification. In addition to zinc metal, the plant produces sulphuric acid and cadmium metal.



cluding mining and concentrating facilities, are estimated at about \$95,000,000, with completion in four or five years.

Production of copper and zinc concentrates in 1974 is estimated at about ten per cent more than in 1973.

Kidd Creek's new tin concentrate plant was completed and started up in December. It is designed to produce a 54 per cent tin concentrate containing about 1½ million pounds of tin metal per year. The price for tin, which was \$1.80 per pound in September, 1972 when construction of the circuit was approved, increased to more than \$3.30 early in 1974.

The tin concentrate is recovered from the copper and zinc circuit tailings. Facilities to separate and stockpile the pyrite concentrate produced in making the tin concentrate should be finished by year end. The resulting 800,000 tons of pyrite per year contain several ounces of silver per ton in addition to minor amounts of copper and zinc. Research is being conducted for the recovery of the silver and other metal values from the pyrite concentrate.

Zinc plant production to increase. Conversion of the zinc plant to continuous leaching was completed late in 1973. The change to continuous purification and other modifications should increase zinc metal production by some 20 per cent or from 10,000 up to 12,000 tons per month early in 1975 if not delayed by shortages of chemical reagents. The zinc plant's production of sulphuric

acid should also increase to about 285,000 tons per year and cadmium metal to about 1,250,000 pounds per year.

Copper smelter and refinery. Engineering and feasibility studies on a smelter and refinery to process Kidd Creek copper concentrates are being made.

A pilot plant test of 800 tons of Kidd Creek copper concentrates using the Outokumpu Oy flash smelting process will start this month in Finland. It is anticipated that a substantial portion of the zinc value in the Kidd Creek copper concentrates which is presently lost will be recovered by this smelting process. Preliminary plans are for a copper smelter and electrolytic refinery with a capacity of 100,000 tons per year, expandable in accord with anticipated increases in copper production at Kidd Creek.

The capital investment for a 100,000 ton per year copper smelter and refinery using the Outokumpu Oy flash smelting process is currently estimated at over \$120,000,000.

Metals Outlook

Nearly all metals were in short supply in 1973. The outlook for 1974 is for continued strong demand. Price increases occurred several times in 1973 and in early 1974.

Texasgulf's price for zinc was increased in stages during 1973 and early 1974 from 20½ cents per pound

The new tin circuit in the Kidd Creek concentrator was completed and started up in December, 1973. It is designed to produce a 54 per cent tin concentrate containing about 1½ million pounds of tin metal per year.



for special high grade, with corresponding increases for other grades, to 31.5 cents in Canada and 32.8 cents in the United States for special high grade. Since July 1, the United States import duty of 0.7 cents per pound on zinc metal has been paid by the customer.

Similar increases in the European producer price for zinc in 1973 added to the income received for concentrates sold overseas.

A total of about 719,000 tons of zinc concentrates were either sold by Texasgulf or processed at the Kidd Creek zinc plant in 1973, reducing inventories to approximately 120,000 tons at year end. Most of the zinc concentrates were sold to customers in Europe, Japan, and the United States.

A fall-off in automobile production in early 1974 may alleviate some of the extreme zinc shortages of 1973. Zinc has a bright future in the automotive industry because its inherent properties and reasonable price are attractive when compared to alternative materials.

In 1973, Texasgulf copper prices increased in stages by 26½ cents to 74 cents per pound in North America and doubled to over 90 cents per pound overseas where about 20 per cent of the company's copper is sold. On March 5, 1974 Texasgulf increased its price for copper metal delivered in the United States to 80 cents a pound.

The demand for silver is increasingly strong. Silver prices increased from \$2.25 early in the year to over \$3 an ounce in December, 1973 and to more than \$5 an ounce in early 1974.

The demand for cadmium was firm with prices remaining at \$3.75 per pound throughout the year.

Lead prices remained at 16½ cents a pound in the United States during 1973, increasing to 19 cents in January, 1974.

Tin metal demand is strong despite large sales from the U.S. Government stockpile. The current price is over \$3.50 per pound.

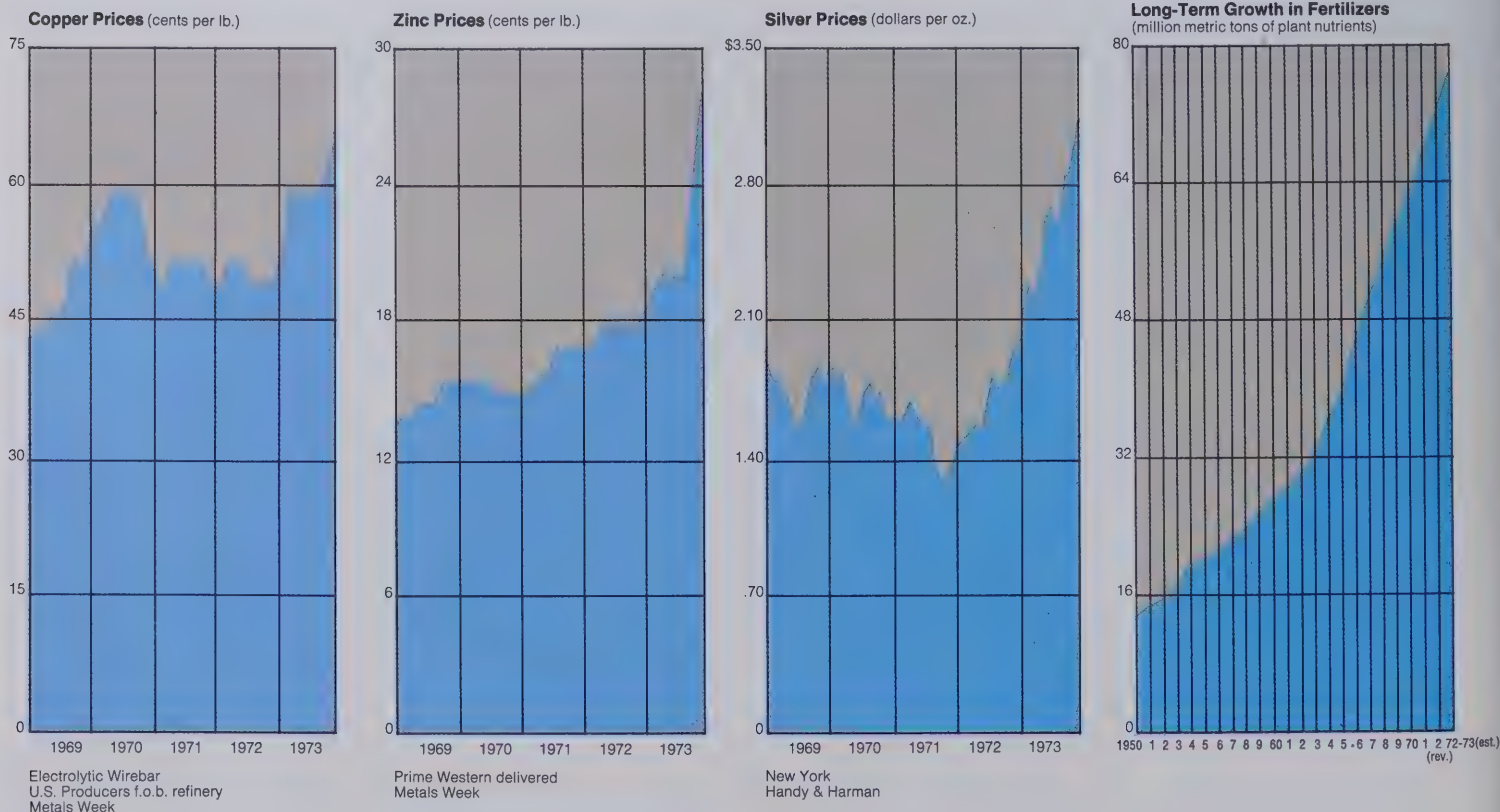
World silver production amounted to an estimated 299 million ounces, compared to 289 million ounces in 1972. World silver consumption increased from 472 million ounces in 1972 to an estimated 533 million ounces in 1973. Of this amount some 230 million ounces came from salvage, stocks and other holdings.

World consumption of refined copper in 1973 amounted to an estimated 9.4 million short tons, an increase of 3.8 per cent over 1972. World production of refined copper in 1973 was an estimated 9.1 million short tons compared to 8.7 million short tons in 1972.

World consumption of zinc metal in 1973 increased about 5 per cent to an estimated 6.4 million short tons. World zinc production in 1973 amounted to 6.1 million short tons compared to 5.9 million short tons in 1972.

Agricultural and Chemical Operations

Production of agricultural and chemical products in 1973 compared with 1972 included:



(short tons of product)	1973	1972
Dry phosphate fertilizers	345,500	405,700
Phosphoric acid as 54% P_2O_5	605,700	594,300
Potash	513,800	518,400
Sulphur (long tons)	2,639,000	2,868,000
Gypsum (sales)	115,000	58,000

Sales of the agricultural and chemical group amounted to \$143,289,000 compared with \$118,942,000 in 1972. Dry phosphate fertilizers include granular triple superphosphate, diammonium phosphate, and run-of-pile triple superphosphate. Phosphoric acid is sold either as 54% P_2O_5 or as super acid, which is 70% P_2O_5 . The Lee Creek, North Carolina phosphate operation is also selling an increasing tonnage of by-product gypsum for use by farmers as a source of calcium and sulphur in the soil.

Major Expansion at Lee Creek. Expansion of the Lee Creek phosphoric acid and sulphuric acid production by 50 per cent by the addition of a third train was completed in December, 1973. Start-up of the third acid train in early January, 1974 increased Lee Creek's phosphorus capacity to an annual rate of 510,000 short tons of 100% P_2O_5 .

In September a further major expansion was announced. This will include the addition of a fourth train of sulphuric acid and phosphoric acid, new mining equipment and ore beneficiation facilities designed to produce phosphate rock at rates sufficient to supply possible fifth and sixth acid trains and additional rock for

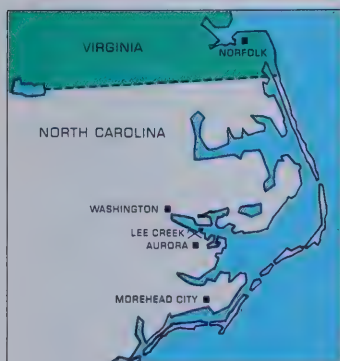
sale. The fourth train expansion program will be completed in late 1975, and will bring the phosphoric acid production capacity to 680,000 tons of P_2O_5 per year. A second 255,000 ton per year granular triple superphosphate plant and a third 130,000 ton per year superphosphoric acid plant will be included in the program to utilize part of the expanded production capability.

A 30,000 long ton liquid sulphur terminal near Morehead City, North Carolina, which is about 45 miles south-east of Lee Creek, was completed in December, 1973. This facility will handle the 600,000 long tons of sulphur required annually for the four trains. A new terminal to provide storage for 20,000 tons of phosphoric acid at Morehead City is also part of the fourth train expansion program and is expected to be in operation in early 1975.

By 1976, the annual domestic and export shipments from Lee Creek are expected to total over 1,850,000 tons, which will include some 675,000 tons of dry fertilizer materials, 675,000 tons of phosphoric acid, and more than 500,000 tons of phosphate rock.

Texasgulf's total investment in North Carolina will be more than \$175,000,000 when the fourth train expansion is completed in late 1975. Addition of the fifth and sixth acid trains would bring total acid capacity to 1,000,000 tons of P_2O_5 per year and make Lee Creek the largest single phosphate facility in the world.

Potash operations. Production of potash by the solution mining process at the Cane Creek Mine near Moab,



Sales of phosphate fertilizer materials from Lee Creek, North Carolina, set new records in 1973. Further expansion of facilities now under way will make it the largest single phosphate facility in the world.



Utah improved during the second half of 1973. It was hampered during the earlier months of the year by unusually heavy snow and rain which added excess water to the ponds to be removed by solar evaporation. The energy equivalent utilized in solar evaporation amounts to approximately 26,000,000 gallons of fuel oil per year. During the fourth quarter Cane Creek produced an average of more than 24,000 tons per month of premium grade white muriate of potash at costs competitive with those of Canadian potash producers. The solution mining process is working well, and it is planned to increase production. Recovery of potash after harvesting the salts from the evaporation ponds and processing in the flotation circuits was further increased by reactivating the crystallizer circuit to recover potash otherwise lost in the tailings.

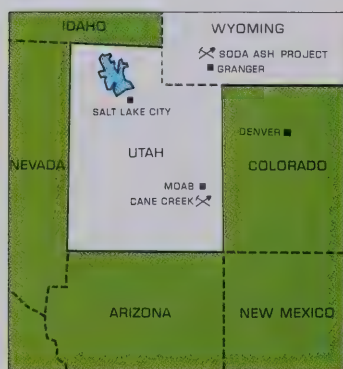
Production at the Allan Potash Mines in Saskatchewan, in which Texasgulf has a 40 per cent interest was limited during 1973 by a shortage of trained manpower. In view of the growing worldwide demand for potash, the Saskatchewan government's prorationing board increased production quotas during the year first from 50 per cent to 57 per cent, then to 61.6 per cent in November and to 68 per cent in December.

Beginning January 1, 1974 the Allan Mines, formerly on a 5-day week, scheduled a 7-day a week operation. Production controls appear to be no longer necessary, and the industry now faces the challenge of increasing production to meet rising demands worldwide.

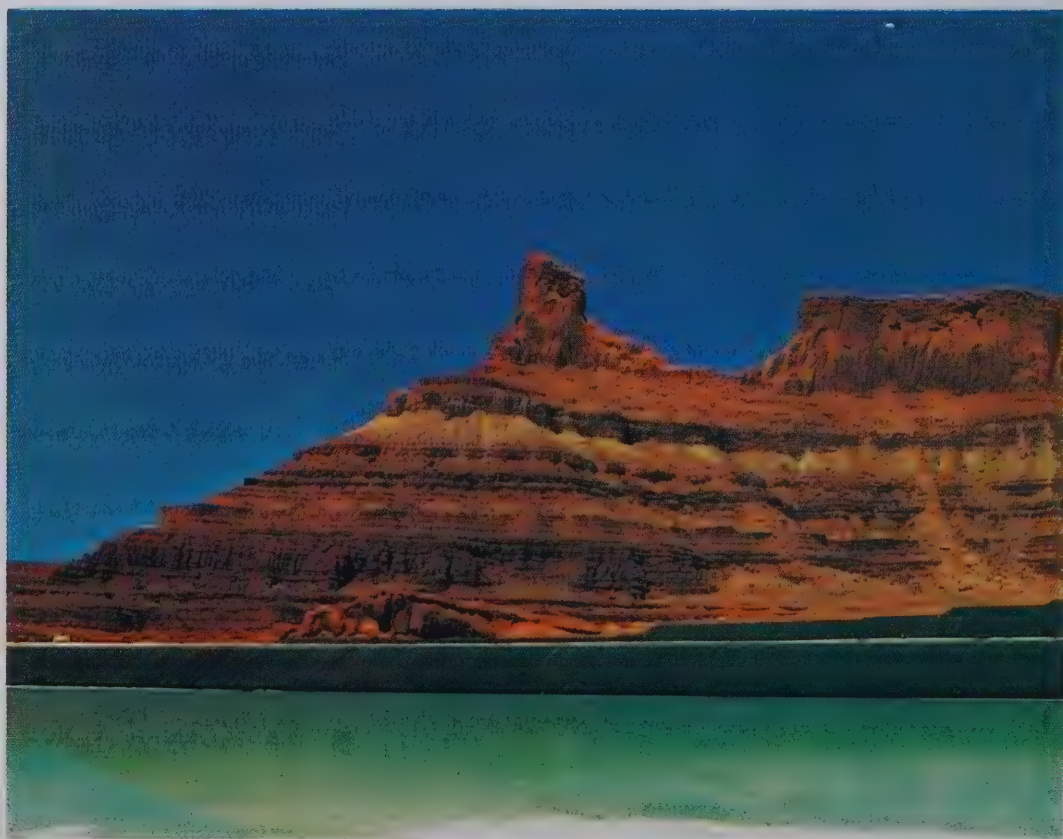
Sulphur operations. Texasgulf's shipments from its Frasch sulphur mines in Texas and Louisiana were slightly higher than production during 1973. Operations at the Bully Camp mine in Louisiana were resumed June 8 after a new source of much higher priced natural gas was obtained following the shut-down November 30, 1972, because of a curtailment of gas from the supplier. Production was normal at the four Frasch sulphur mines in Texas and at three sulphur recovery plants in Alberta. Some of the smaller Frasch mines may have to be closed in the near future because of high production costs and the low prices for sulphur. Production costs have increased steadily and will continue to rise with inflation. Since early 1971 the cost of natural gas has increased 138 per cent and drill pipe and casing are up from 50 to 280 per cent depending on type and size.

Production continued to increase at the Texistepec Frasch sulphur mine on the Isthmus of Tehuantepec in Mexico. Tg has a 34 per cent interest in Compania Exploradora del Istmo which owns and operates the mine. Approval by the Mexican government is still awaited for the transfer of mining rights on the adjacent property, formerly held by Mineral Resources International Limited, a Canadian mining company, and which were acquired by Texasgulf last year.

In December, Texasgulf was successful in bidding for a University of Texas lease for sulphur rights covering 7,680 acres in Pecos County, Texas. The bid was \$1,152,000. The area has a known recoverable reserve



Potash production by the solution mining process at the Cane Creek Mine near Moab, Utah, increased in 1973. The solar energy used in the evaporation process is equivalent to a saving of 26,000,000 gallons of fuel oil per year.



estimated at 2.9 million long tons of sulphur. A potential for additional reserves exists as only a small part of the area has been explored.

Soda ash plant under construction. Texasgulf's reserves of trona, the ore from which soda ash is produced, will be mined and processed in a new \$75 million mine and plant for which engineering and construction are now under way. The operation is scaled to produce 1.8 million tons of ore to yield 1 million tons of soda ash per year. Tg's reserves are adequate to permit production at higher rates for many decades, and the plant is designed for doubling production when required. Soda ash is an essential material in the glass and chemical industries.

Arthur G. McKee & Co. is in charge of engineering design of the surface plant, and Brown & Root will be responsible for construction which is to begin in the spring of 1974. Environmental factors have been a foremost consideration in design in an effort to meet the highest standards in this regard. The plant will use local coal as a fuel.

Sinking of a second mine shaft 22 feet in diameter to a depth of 1,500 feet began late in 1973. This will be the main production shaft, while the original 16-foot diameter shaft will provide ventilation and auxiliary services. Extensive development work was done earlier from the original shaft so that several entries into the two flat-lying trona beds at depths of 1,370 feet and 1,420 feet are now available. The Cementation Co. of Brampton, Ontario, is

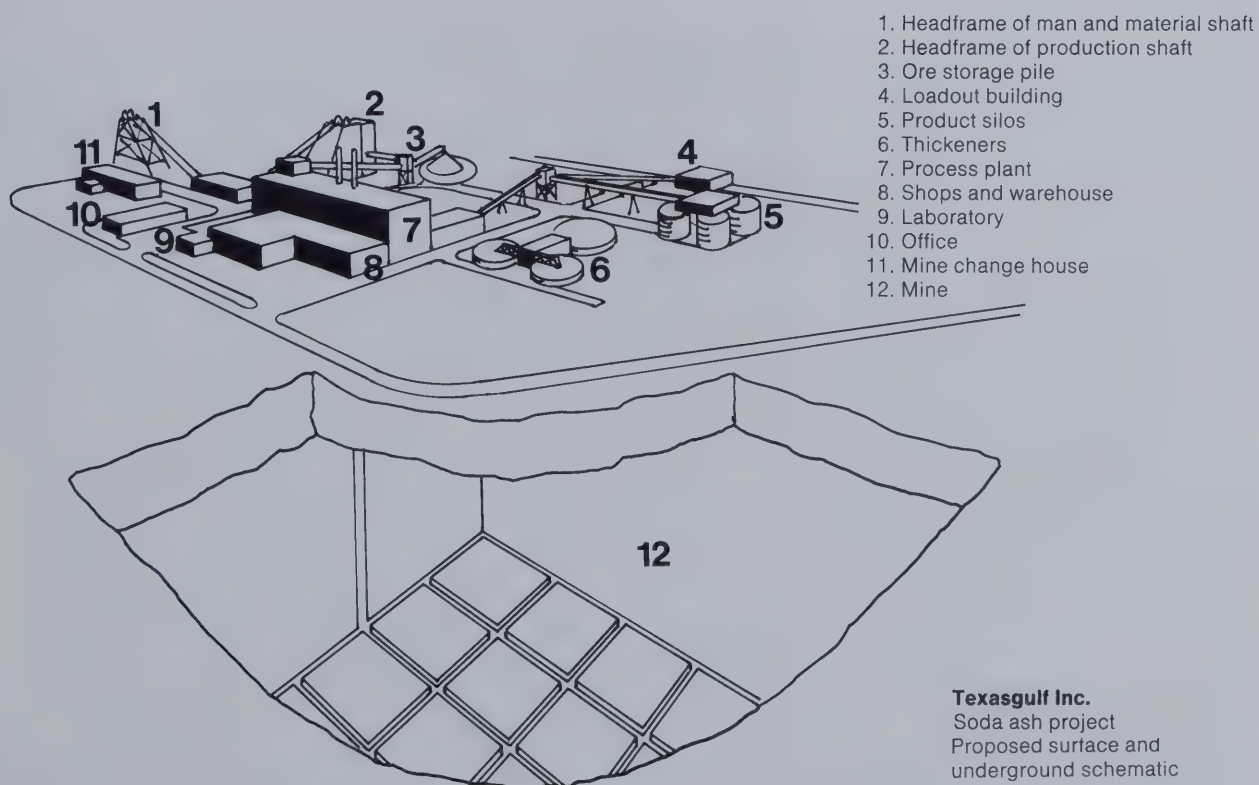
sinking the new shaft and placing the concrete lining. Stearns-Roger Incorporated is general contractor for design and construction of the mine facilities.

The Outlook for Agricultural and Chemical Products

Fertilizers. The world wide increase in demand for fertilizer materials which developed in 1972 surged in 1973 and is expected to continue for the next several years. There appears to be a strong upward trend for farm products. Population growth, higher incomes, and the desire for a diet with more protein have contributed to the strong demand for fertilizers.

The former U.S. government policy of holding down farm production has been abandoned. Over 50,000,000 acres have been released from the Federal government's soil bank. This formerly unused land should require considerable fertilizer. The energy crisis is creating a shortage of feed-stock for synthetic fibers. Natural fibers such as cotton and wool are in strong demand and will increase the need for more heavily fertilized land. Large government stocks of grain no longer exist.

Early in 1973 the United States price control program was modified to permit some increases in prices for fertilizer materials. The new prices were still considerably below those in the world market. On October 25, 1973, the Cost of Living Council recognized the need to remove fertilizer materials from price controls in order to help insure adequate supplies in the domestic market. The Council failed, however, to include sulphur



among the fertilizer materials decontrolled although sulphur is well known as a vital plant nutrient in its own right. In addition, 50 per cent of world sulphur consumption is in the manufacture of phosphate fertilizer materials.

It has been called to the attention of the Cost of Living Council that sulphur is also a fuel supplying heat to the fertilizer operations. The energy recovered in the form of steam from sulphur when burned to produce one short ton of sulphuric acid is equivalent to the energy recoverable from more than one half barrel of fuel oil. At a four train rate, Lee Creek's energy saving by burning sulphur to produce sulphuric acid will be equivalent to about one million barrels of fuel oil per year. The energy saving in United States industry as a whole in 1974 by burning sulphur will be equivalent to about fifteen million barrels of fuel oil.

After the removal of price controls, sales of phosphate fertilizer materials continued on an allocation basis following the adjustment to higher prices closer to those prevailing in world markets. Phosphate fertilizer remains in short supply.

World consumption of phosphate fertilizer materials increased from 21.1 million metric tons in 1972 to an estimated 22.5 million tons in 1973.

Potash. Demand for potash also continued strong. Delays in shipments in both exports and domestic markets were caused by shortages of rail cars and of bunker fuel

for ocean shipping. Prices for potash products in the domestic market were increased overall by \$5 per ton effective February 1, 1974.

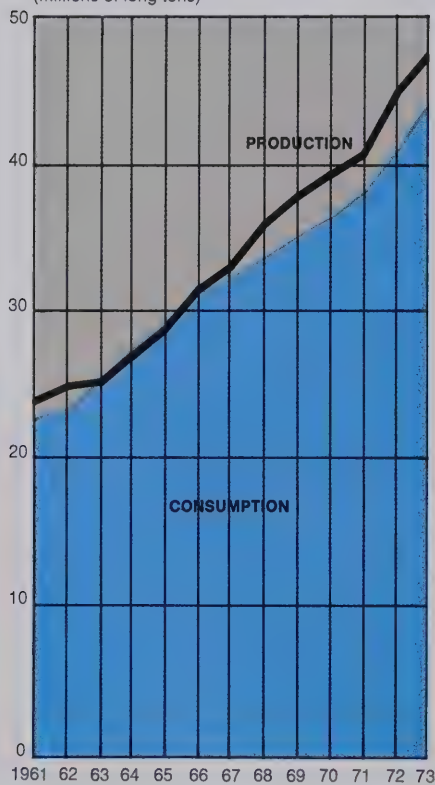
Texasgulf's inventories of potash in both the United States and Canada declined during the year. Worldwide sales by Canpotex Limited, the export marketing organization for all Saskatchewan potash producers, have been expanding into many countries, including the People's Republic of China.

World consumption of muriate of potash rose from 17.5 million tons in 1972 to an estimated 18.5 million metric tons in 1973.

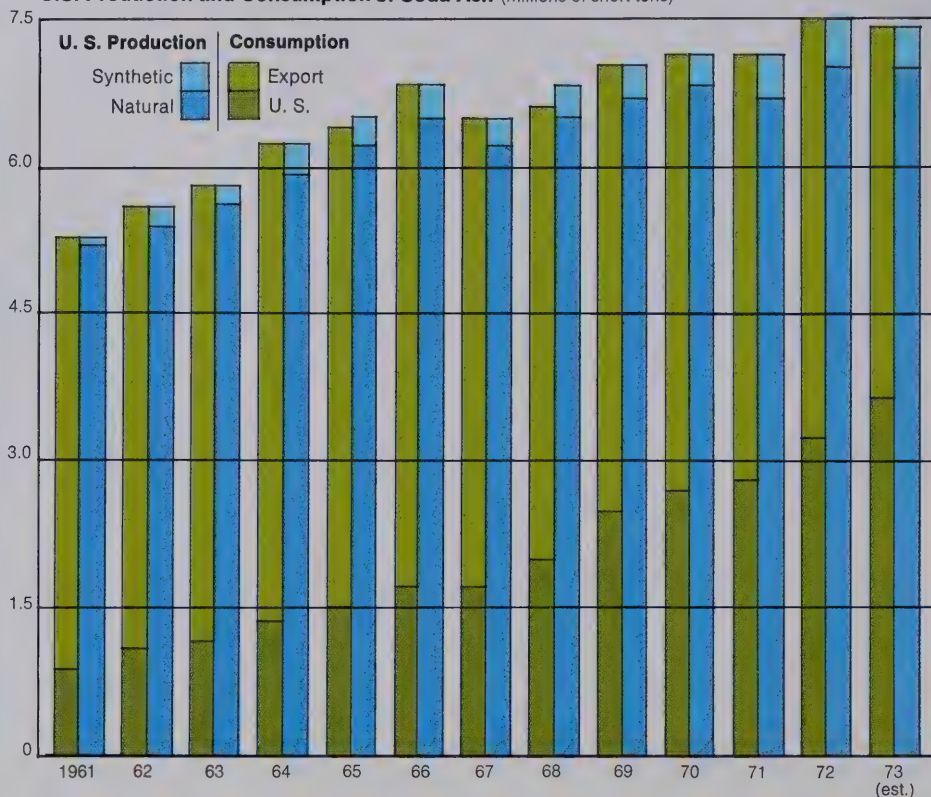
Sulphur. The United States phosphate fertilizer industry currently consumes sulphur at the rate of more than five million long tons per year. Since nearly every ton of P_2O_5 produced requires almost one short ton of sulphur, the growing demand for phosphate fertilizers is contributing strongly to the increase in sulphur consumption. The announced new and expanded phosphate plants in the U.S. will require an additional two million long tons of sulphur in 1975, over and above the normal growth of 4 to 5 per cent per year.

In addition to its importance as a raw material in the production of phosphate fertilizers, sulphur is also a plant nutrient, as essential to crop production as nitrogen, phosphorus and potassium. Many crops contain as much sulphur as they do phosphorus. The increasing use of high-analysis fertilizers which do not contain sul-

Production and Consumption of World Sulphur in All Forms
(millions of long tons)



U.S. Production and Consumption of Soda Ash (millions of short tons)



phur, formerly supplied by ammonium sulphate and single superphosphate, has only recently been recognized as leading to sulphur deficiencies in the soil which are now estimated to occur in at least 30 states. Environmental controls to remove sulphur from the air have also reduced supplies available to the soil.

Most of the large inventory of sulphur in Western Canada is not available for immediate consumption because of the lack of rail transportation and shipping facilities as well as high freight rates.

Sulphur prices increased moderately during the year, although domestic prices remained under control by the Cost of Living Council. A \$3 per ton price increase for Frasch sulphur announced by Texasgulf in January, 1973 and fully implemented in July was largely offset by increased costs. A second price increase of \$3 per ton delivered in the United States was announced by Texasgulf in June and became fully effective in September.

On August 1 Texasgulf announced an increase of \$3 per long ton for its sulphur recovered from sour natural gas in western Canada to \$12 per ton, f.o.b. plant for shipments to customers in Canada and the United States. This price was increased to \$15 per ton effective December 1 and to \$20 per ton March 1, 1974. Some export prices for U.S. Frasch sulphur, f.o.b. Gulf ports, increased to \$45 or more per ton and Canadian exports increased to \$45 per ton f.o.b. Vancouver, B.C., which includes about \$10 per ton for transportation and hand-

ling costs from the plant to port.

During 1973 it was increasingly apparent that sulphur was becoming in short supply in the United States and critically so in some parts of the world with the situation to get worse as new P_2O_5 production comes on stream in 1974 and 1975. For the twelfth consecutive year world consumption of sulphur set a new record high, amounting to 44 million long tons, an increase of 7 per cent over 1972. World production rose 6 per cent to an estimated total of 47 million tons in 1973. However, some three million or more tons of this production is unavailable due to lack of transportation capability to move it to market. Sulphur will remain in critical short supply unless pricing gives proper incentives for exploration and increased production. Present prices are inadequate due to government controls.

Soda ash. Soda ash is also in increasingly short supply. Even though production of natural soda ash increased by about 500,000 tons in 1973, it was more than offset by the decrease in synthetic production reducing overall supplies to about 7.4 million tons. With demand running ahead of supply, sales have been under allocation in the industry. Even Texasgulf is experiencing difficulty in obtaining its necessary requirements for soda ash which is used as a chemical reagent in the sulphur, phosphate and metals operations.

In early 1974 most soda ash producers were permitted to raise prices by \$2.50 per ton to \$38.



Frasch sulphur production at the Bully Camp mine in Louisiana was resumed in June, 1973 after locating a new source of much higher priced natural gas following the shut-down in November, 1972.



Forest products. The Armstrong Forest Division manages and harvests timber and pulpwood from its 139,000 acres of woodland in Pennsylvania and 113,000 acres in Ontario. Most of the remaining pulpwood on the Ontario acreage was sold in early 1974 to Abitibi Paper Company Ltd.

Oil and Gas Operations

Texasgulf's exploration program for oil and gas in the United States, Canada and other parts of the world continued to expand in 1973. Gross sales of all forms of oil and gas amounted to \$4,886,000 in 1973 compared to \$4,358,000 in 1972. Further improvement is expected in 1974.

Oil and gas production in the United States and Canada in 1973 and 1972 included:

	1973	1972
Oil and condensates (bbls.)	248,700	244,000
Gas (million cubic feet)	17,786	17,861
Natural Gas Liquids (thousands of gallons) ..	2,000	1,500

Production from East Cameron Block 273, offshore Louisiana, began in September, 1973 at the rate of 63 million cubic feet of gas plus 222 barrels of condensate per day.

Block 273 is the second of eight tracts acquired in the December 1970 offshore lease sale to go into production.

Texasgulf has a 25 per cent interest in these blocks in partnership with Phillips Petroleum, Allied Chemical and Skelly Oil (the PAST group). Prices for gas are regulated by the Federal Power Commission (FPC). Approval has been requested from the FPC to increase the gas sale price from 26 cents per thousand cubic feet (MCF) to 45 cents per MCF which is equivalent in heat value on a Btu basis to oil at \$2.84 per barrel. Obviously gas prices are too low as oil is now selling at about \$10 per barrel.

Gas condensate discovery. Texasgulf has a 20 per cent interest in West Cameron Block 480 on which a gas condensate discovery was announced in September by Phillips Petroleum, the operator for another group (the PAAST group) which includes Texasgulf, Allied Chemical, American Petrofina Exploration Company, and Skelly. The group purchased this 5,000-acre lease for \$10,227,666 in the December, 1972 Federal offshore lease sale. After the discovery well, two additional tests were drilled before a decision was made to set a production platform. Plans call for development drilling to be done from a self-contained facility currently under construction.

Oil and gas exploration. Texasgulf, acting jointly with other companies, has been aggressively pursuing an exploration program to acquire new acreage in addition to evaluating currently held leases. Two major Federal lease sales were held in 1973, one on the Texas Continental Shelf and one on the Florida, Alabama and Mississippi Shelf.



Off the coast of Texas the company joined with members of the PAAT Group (Phillips, Allied Chemical, American Petrofina and Texasgulf) to acquire an interest in seven leases in June 1973. These are Blocks A-123, A-134, A-152 and A-165, Galveston Area, and Blocks A-263, A-483 and A-558, High Island Area. Texasgulf participated in 29 bids, exposing \$60.8 million and spending \$11.5 million. This was one of the most competitive Federal lease sales ever held, with the industry exposing \$6.2 billion and spending \$1.6 billion. During 1973 two joint-interest offset wells were drilled with adjacent lease owners, one next to Block A-483 High Island and one on Block A-558 High Island. Neither of the wells encountered hydrocarbon shows and evaluation will continue.

In the eastern Gulf of Mexico sale offshore Florida held December 20, 1973, Texasgulf, bidding with Sun Oil Company, El Paso Natural Gas Company, American Petrofina Exploration Company, and Total American, Inc., acquired a 15 per cent interest in two 5,760-acre leases, Tracts 32-87 and 32-132. The latter, purchased by the Group for \$46.9 million, was highly sought after and is believed to be one of the most desirable blocks in the sale. Texasgulf's share of the bids on these two tracts was \$8.5 million.

Texasgulf acting alone made two bids in the December 20, 1973 sale and was successful in acquiring one tract, 32-101, offshore Florida for \$4.1 million. After the lease was awarded negotiations with Tesoro Petroleum

Corporation, Pelto Oil Company, Clark Oil Producing Co., and Home Petroleum Corporation, resulted in those companies acquiring a 75 per cent interest in the block for \$3.8 million. Texasgulf retained a 25 per cent interest and will be operator for the group.

The Department of Interior has scheduled lease sales in the Gulf of Mexico in March 1974 for offshore Louisiana and in May 1974 on the northern portion of offshore Texas. The May sale will include certain blocks in the Brazos Area where Texasgulf acts as exploration operator for a group including Northern Natural Gas Company and Total American, Inc. Elsewhere Texasgulf will act in company with its partners in the PAAST and PAAT Groups.

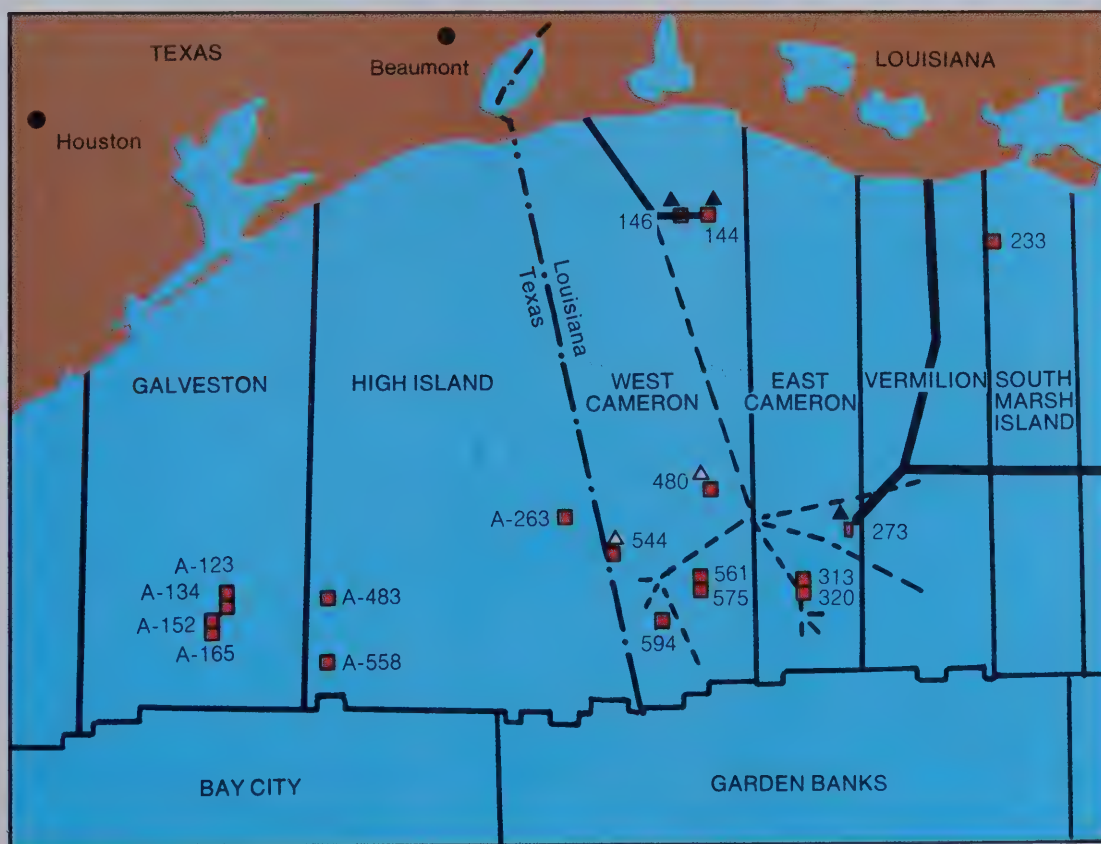
Alaska. Texasgulf has expanded its joint venture exploration operations in Alaska. In addition to its earlier participation in a multi-company group in the Gulf of Alaska, Texasgulf has joined Cities Service and Getty Oil in the lower Cook Inlet and soon expects to reach an accord with Getty, Placid Oil, Rowan Companies, Inc. and Hunt Industries on the North Slope. When future lease sales are held in these areas, Texasgulf expects to be an informed and active participant.

Canada. Texasgulf is planning a pilot program to test the feasibility of producing oil from its extensive heavy oil reserves in western Saskatchewan by stimulation, using steam injection methods.

Legend

- 1 Texasgulf, Northern Natural Gas, Total American
 - 2 Phillips, Allied Chemical, American Petrofina, Texasgulf
 - 3 Phillips, Allied Chemical, American Petrofina, Skelly, Texasgulf
 - 4 Sun, El Paso Nat'l. Gas, Texasgulf, Monsanto, Pacific Lighting Exploration, Total American
- (Operator in bold face)

- △ Proposed Platform
- ▲ Production Platform
- Existing Pipeline
- - - Proposed Pipeline
- Tg Leases



Core drilling by Texasgulf over the past few years has outlined reserves in the North Battleford area estimated to total more than 1.5 billion barrels on some 20,000 acres explored to date. This oil, which is too heavy to flow under normal reservoir conditions, is part of a vast trend of geologically related deposits which extends over 500 miles from the Peace River area of northern Alberta through Wabasca, Athabasca and Cold Lake southeastward into Saskatchewan. The Saskatchewan crude contains little or no sulphur. Texasgulf holds 250,000 acres under permit or lease in this area.

Based on a study made for Texasgulf by Crest Engineering, a subsidiary of Combustion Engineering, it has been concluded that recovery of the North Battleford oils utilizing steam injection can become economically feasible, and it has been decided to commit more than \$1 million toward the initial development of a prototype production unit. Proving the technical and economic feasibility of this method and developing full scale production facilities may require investments of more than \$40 million over a period of several years. Other companies have expressed an interest in joining Texasgulf in this project.

In the Provost area of Alberta, Texasgulf through its subsidiary, TGS Hydrocarbons Ltd., continues to develop shallow gas and oil reserves. During 1973 eleven wells were drilled and completed. An additional 20-well development program has been delayed because of a shortage of tubular goods. It is planned to build a new

gas treating plant to handle increased production expected from the additional reserves proven by the 1973 program.

Senegal and Malagasy Republic. Texasgulf and Compagnie Francaise des Petroles (CFP) have been associated offshore in Senegal since March, 1969, during which time they have drilled 25 test holes of which 16 had sulphur and 9 oil as their principal objective. Before 1969, CFP had itself drilled 8 oil tests and a number of shallow core holes. The thrust of these programs was to evaluate the oil and sulphur potential of ten large salt domes. Oil of good quality was encountered and produced on test from one hole in 1970 but it represented a non-commercial reservoir. Three holes drilled on this same structure encountered what appeared to be a large deposit of heavy viscous oil. Additional deposits have been found on other structures in the area. These deposits are estimated to contain from 1/2 to 3 1/2 billion barrels. While the economic significance of these reservoirs had been discounted, recent market prices for crude oil worldwide have demanded their reconsideration. At the urging of the Senegalese Government, CFP, Texasgulf, and a subsidiary of Royal Dutch Shell have commissioned an engineering study to determine whether their recovery may now be feasible.

Also in Senegal, Royal Dutch Shell has completed a 1900-kilometer deep-water seismic program on the Casamance Occidentale permit which Texasgulf holds

Production from East Cameron Block 273, offshore Louisiana, began in September, 1973 at the rate of 63 million cubic feet of gas and 222 barrels of condensate per day. Texasgulf has a 25 per cent interest in this block in partnership with Phillips Petroleum, the operator, Allied Chemical and Skelly Oil.



jointly with CFP. Based on the results, Shell may elect to drill a 15,000-foot well to earn a 50 per cent interest, with Tg and CFP retaining 13.5 per cent and 36.5 per cent respectively. The area of the permit in waters deeper than 600 feet is considered to have impressive geologic promise. If Shell can define a prospect with dimensions sufficient to justify the risk and expense, it will bring in Sedco Rig No. 445, one of the few able to operate in more than 1,000 feet of water.

In the Malagasy Republic, Hispanoil completed an onshore seismic program in December 1973 in a portion of the 7 million acre permit which Tg and CFP jointly hold on the island's western coast. Utilizing the results of the seismic program, Hispanoil may elect to drill a well to earn a 40 per cent interest, with CFP and Tg retaining 40 per cent and 20 per cent respectively. From 1969 to date CFP and Tg have drilled three wells offshore spaced about 100 miles apart. Two have had shows of hydrocarbons and one of them produced gas at a limited rate on test.

Nicaragua. Texasgulf has a one-eighth interest in an oil and gas exploration joint venture covering 3 million acres off the Pacific coast of Nicaragua. Oceanic Exploration Company of Denver is the operator for the group which includes Royal Dutch Shell and El Paso Natural Gas Company. Reconnaissance geophysical surveys have mapped several large promising structures.

Minerals Exploration

Exploration for minerals, especially non-ferrous metals and uranium, continues active in many states, including Alaska, Arizona, California, Colorado, Idaho, Minnesota, Nevada, New Mexico, Oregon, Washington and Wisconsin.

Minerals exploration projects also continued in the Provinces of British Columbia, New Brunswick, Ontario and Quebec, and the Yukon and Northwest Territories. Results of the 1973 drilling program at the Robb Lake lead-zinc prospect in northeast British Columbia were encouraging, and it is planned to conduct a 25,000-foot diamond drilling program in the summer of 1974 using two drills. Tg's subsidiary, Ecstall Mining Limited, has a 40 per cent interest in the Robb Lake joint venture.

In Ireland, drilling began in October on a 61-square mile exploration permit 25 miles west of Dublin for lead-zinc-silver mineralization.

In South Africa eight holes have been completed with drilling still continuing on a potential platinum property between Rustenberg and Britts, the prime platinum producing area of South Africa. The grade of platinum group metals with byproduct copper and nickel found so far has been somewhat encouraging. Texasgulf has permits and options on 22,000 acres of potential land with eight miles of strike length of Bushvelt complex believed to be underlain by the platinum bearing Merensky Reef horizon.

The workhorse whirlybird is essential to the work of minerals exploration in many parts of the world, including remote and mountainous areas of the United States and Canada.



Sherlock Bay. In Western Australia drilling continued on a 75-100 million ton low grade nickel copper sulphide deposit in the Sherlock Bay region. Plans to bring the deposit into production continue under study but may have to wait for a more favorable economic climate. Since early 1972 devaluations of the United States dollar and revaluations of the Australian dollar have increased the exchange rate of Australian currency from \$1.12 to \$1.49 U.S. At the same time international prices for nickel have increased only moderately. The Sherlock Bay deposit has the advantages of a location near water for shipping and the fact that it is a sulphide deposit with lower processing costs than the typical lateritic deposit.

Mons Cupri. At Mons Cupri preliminary feasibility studies on leaching the copper oxides using sulphuric acid are under way. If the copper market remains stable at current prices development of this deposit appears possible at a rate of about 3,500 tons of copper per year, for six years. This would give time to permit better evaluation of the larger underlying copper sulphide deposit.

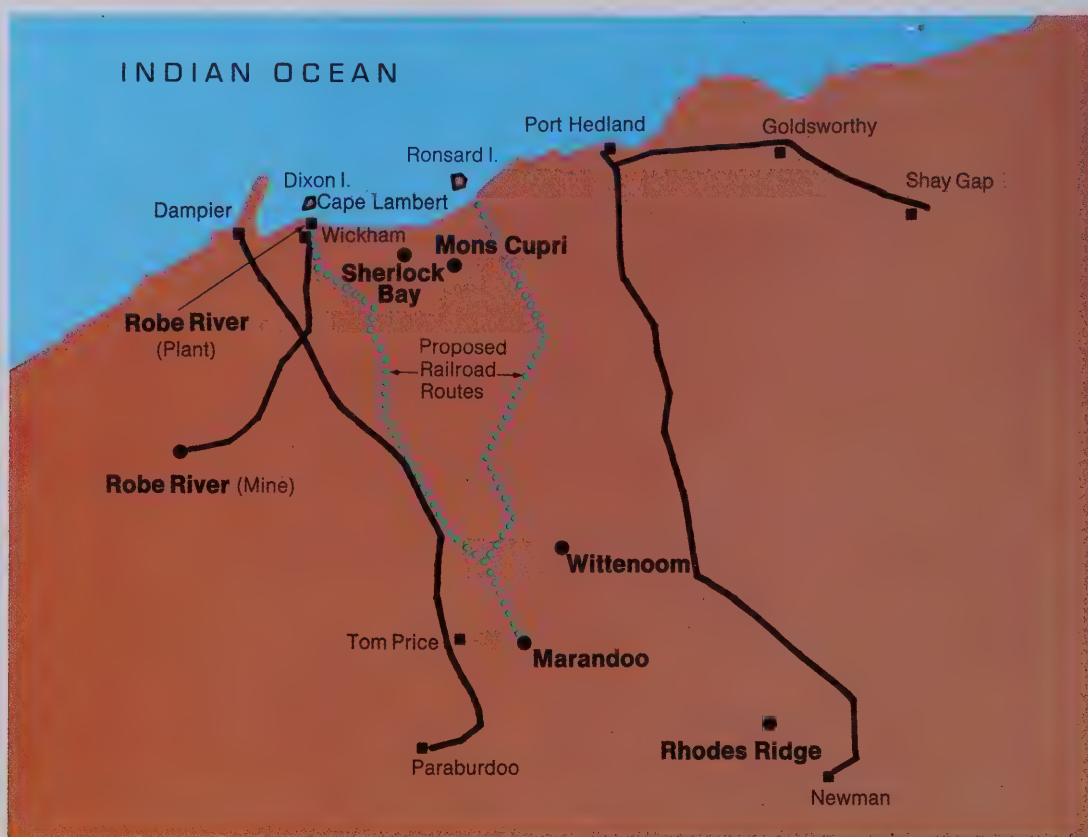
New exploration headquarters. An exploration headquarters building is being planned adjacent to the company's new research laboratory at the Table Mountain Research Center of the Colorado School of Mines Research Institute near Denver.

Baffin Island. Mineral Resources International Limited (MRI), a Canadian mining company, has negotiated a tentative agreement with two other companies for financial assistance and purchase of concentrates from the Baffin Island zinc-lead property discovered by Texasgulf some years ago in the Canadian Arctic. If the property is placed in production, Texasgulf will receive 35 per cent of the net profits after the recovery of production financing by MRI and exploration and development expenditures incurred by both parties. Production could begin in 1976 or 1977.

Western Australia

Robe River. During its first full year, the \$300 million Robe River iron ore operation, in which Texasgulf has a 10.5 per cent interest, produced 4.5 million tons of iron ore sinter fines and 3.7 million tons of iron ore pellets. Shipments to Japanese steel companies having long-term sales contracts with Robe River included 4.6 million tons of fines and 3.7 million tons of pellets. 1973 operations resulted in a loss to Texasgulf of \$350,000. The substantial increase in value of the Australian dollar since the project started has been partly offset by the Japanese steel mills who agreed to a 17 per cent increase in the sales price. Costs were also up because of a train wreck and higher imported fuel costs.

Map of West Pilbara area shows alternate railroad routes under study from the Marandoo ore reserves to the Indian Ocean.



Robe River facilities have been expanded to increase production of iron ore sinter fines to 6.5 million tons and pellets to 4.8 million tons annually. Further expansion of the pellet plant by another 2.4 million tons per year is under study. The increased costs of fuel oil required for making iron pellets, however, will add to the production costs.

Marandoo. The Australian Commonwealth Government in September approved the joint venture arrangements between Texasgulf and Hancock and Wright (Hanwright) of Perth for the development of the Marandoo iron ore deposit near Wittenoom in Western Australia. Approval of Hanwright's assignment of a 50 per cent interest to Texasgulf has also been given by the Western Australian authorities. It is anticipated that Marandoo will be Australia's next new major iron ore project.

More than 500 million tons of 63 per cent iron have been indicated at Marandoo. The low content of phosphorus and alumina with very high iron make Marandoo potentially one of the best deposits in Western Australia. The deposit averages less than 0.06 per cent phosphorus and 1.9 per cent alumina.

Engineering feasibility studies have been completed by a joint venture of Brown & Root (W.A.) Pty. Ltd. and Fluor Australia Pty. Ltd. and by Tg personnel. These formed the basis for a presentation to Japanese steel mills. Long term sales contracts will be negotiated soon. While the energy crisis may have a serious effect on

Japanese requirements for iron ore, Australian iron ore has the advantage of substantially lower ocean shipping costs to Japan compared with those from other parts of the world. The price of fuel oil has more than tripled. This together with a longer haul from South America and Africa give Australia a significant advantage.

Rhodes Ridge. Evaluation work continues on the temporary reserves immediately to the west of those covered by the present Rhodes Ridge iron ore agreement, a joint venture with Hancock and Wright. Discussions have been held with Western Australian government officials on long-range plans for bringing all of these areas into production after Marandoo.

Energy Shortage. Texasgulf's operations have not been substantially affected by the energy shortage except at Bully Camp. It is anticipated that operations will be able to continue in a normal manner but at higher costs for gas and fuel oil. Supplies appear adequate to meet requirements in most areas of operations and in many instances are under firm long-term contract. The company's expanding fertilizer operations in the United States receive a high priority for available supplies under the Federal fuel allocation program.

In exploring for and developing new sources of energy, Texasgulf is active in the effort to end the energy shortage. The soda ash project in Wyoming is being designed to use coal as fuel in order to utilize the most

The camp site at Marandoo in Western Australia where Texasgulf in partnership with Hancock and Wright has done work indicating a reserve of more than 500 million tons of 63 per cent iron.



plentiful and economic source of energy available. All operations are making every effort to conserve energy wherever possible and to study the applicability of alternatives such as solar energy.

The full heating value of sulphur is also being utilized. On a Btu basis, with oil at \$10.00 per barrel, the heat value alone in a long ton of sulphur is equivalent to \$18. Sulphur is a fuel, the value of which has not been fully recognized or paid for.

New Directors and Officers Elected

Dr. Charles F. Fogarty, who had been president since July, 1968, was elected chairman and chief executive officer, to succeed Claude O. Stephens who retired as chairman and chief executive officer effective November 1, 1973. Mr. Stephens reached the company's normal retirement age of 65 on October 6 after completing more than 41 years of service with Texasgulf. He continues as a director of the company.

Richard D. Mollison, formerly senior vice president, metals division in Toronto, Ontario, was elected president, succeeding Dr. Fogarty. Mr. Mollison was also elected a director, replacing Edward K. Brass, who resigned as a director of Texasgulf effective November 1, 1973. Mr. Brass had served as a director for 6 years and as a financial consultant for the past 11 years after retiring as a vice president and chairman of the loan committee of Morgan Guaranty Trust Company.

H. V. W. Donohoo, formerly senior vice president, agricultural division, was elected executive vice president of the company effective November 1, 1973. Other officers elected as of the same date included:

Dr. Walter Holyk, formerly vice president, exploration, as senior vice president, metals division, succeeding Mr. Mollison.

Dr. Leo J. Miller, formerly manager of mineral exploration in the United States and Mexico, as vice president—minerals exploration.

P. Ray Clarke, formerly general manager of the Kidd Creek operations, as vice president, Kidd Creek operations.

At the September, 1973 board meeting Kenneth J. Kutz, formerly assistant to the president and manager of Australian iron ore projects, was elected vice president, international projects.

Charles F. Drees, general manager, Frasch Sulphur Operations, and David C. Edmiston, Jr., general manager, Phosphate Operations, were elected vice presidents at the February, 1974 board meeting.

On December 5, 1973, four former members of the board were elected honorary directors. These included Mr. Brass; George S. Eccles, president and chief executive officer of First Security Corporation, Salt Lake City, Utah, a Texasgulf director since 1967, who resigned December 5, 1973; Thomas M. Phillips, senior partner, Baker & Botts, Houston, Texas, a Texasgulf director since 1968, who resigned

The shipping pier at Cape Lambert in Western Australia extends 1½ miles into the Indian Ocean. During 1973 the Robe River plant, in which Texasgulf has a 10.5 per cent interest, shipped more than 8.7 million tons of iron ore.



November 1, 1973; and Lowell C. Wadmond, partner, White & Case, New York, N.Y., Texasgulf's senior director in years of service, having been a director since 1949, who also resigned on December 5, 1973.

Louis R. Desmarais, of Montreal, chairman and chief executive officer of Canada Steamship Lines and a director of Canada Development Corporation (CDC); John P. Gallagher, of Calgary, president of Dome Petroleum Ltd. and a director of CDC; and H. Anthony Hampson of Toronto, a director, president and chief executive officer of CDC were elected directors on December 5, 1973.

Quarterly Dividend Increased

Quarterly dividends of 15 cents a share were paid on March 15, June 15 and September 15, 1973. At the November 1 board meeting directors increased the dividend to 19 cents a share payable December 15, 1973 to stockholders of record on November 15. The increase was the maximum allowable under government guidelines.


On February 7, 1974, the board of directors declared a quarterly dividend of 19 cents a share payable March 15, 1974 to stockholders of record on February 19, 1974.

On behalf of the board of directors, we would like to express our sincere appreciation to all Texasgulf employees, stockholders, customers and community neighbors for their interest and support throughout the year.

Respectfully submitted,



Charles F. Fogarty
Chairman of the Board
and Chief Executive Officer



Richard D. Mollison
President

March 8, 1974

Ten Year Summary of Production (Figures are in short tons unless otherwise noted)										
Product	1973	1972	1971	1970	1969	1968	1967	1966	1965	1964
Sulphur (long tons)	2,639,000	2,868,000	2,839,100	2,955,500	3,043,700	3,030,000	3,031,000	2,993,000	2,603,000	2,446,000
Oil & Condensates (barrels)	248,700	244,000	226,000	277,000	304,000	289,100	297,900	334,800	367,000	338,000
Gas (million cubic feet)	17,786	17,861	14,836	11,646	10,657	10,000	9,557	8,280	8,000	5,000
Potash	513,800	518,400	266,900	430,800	440,100	410,000	338,000	286,000	99,000	
Sulphuric Acid	1,137,000	1,035,000	744,000	670,000	686,000	697,000	525,700	24,000		
Phosphoric Acid (as 54% P ₂ O ₅)	605,700	594,300	477,500	435,100	439,700	443,600	325,000	9,000		
Dry Phosphate Fertilizers	345,500	405,700	281,000	298,800	365,600	409,000	275,600	5,000		
Copper Concentrates	206,900	182,200	182,100	172,000	184,000	205,400	205,000	9,400		
Zinc Concentrates	589,900	616,700	590,800	582,800	582,100	562,500	432,000	28,000		
Lead Concentrates	36,900	42,100	61,900	70,400	93,900	96,000	43,000	1,000		
Silver (troy ounces in concentrates)	10,691,000	13,039,000	12,720,000	13,023,200	13,822,000	13,968,000	7,800,000			
Cadmium Metal (pounds in concentrates)	2,960,000	3,034,000	3,214,000	3,201,000	3,156,000	3,049,000	1,989,000			
Zinc Metal (from Tg Zinc Plant)	107,100	60,100								
Iron ore sinter fines	460,000	156,200								
Iron ore pellets	387,000	34,500								
Gypsum (sales)	115,000	58,000								

Financial Review

Earnings and Dividends. Net income for 1973 of \$73,922,000 brought the company's total earnings after taxes since its first operations began in 1919 to more than one billion dollars, or \$1,011,900,000.

For 1973 metals made the largest percentage increase in operating income, increasing its share of the total to nearly four-fifths. Operating income for agricultural products also showed a substantial increase—nearly doubling. Most of this was contributed by phosphates, but potash also showed improvement. The increased prices for Frasch sulphur were about offset by higher costs, particularly for gas. The 1973 increases for sulphur, when in effect for the entire year, should produce improved earnings in the future.

Quarterly dividends paid during 1973 amounted to \$19,468,000, bringing the total paid since the first dividend in 1921 to \$570,881,000. The fourth quarter dividend of 19 cents per share was the 209th consecutive dividend. This made the total for the year 64 cents per share, the maximum permitted under government guidelines. The amount of dividend payments is regularly reviewed by the Board of Directors. However, if these guidelines are continued for all of 1974, total payments for the year could not exceed 86 cents per share using the test of 35.5 per cent of prior years' earnings, which is the most favorable for this year.

Sales. Gross sales less outside zinc and lead smelting and refining charges were \$363,776,000, up \$93,234,000 or 34 per cent. Sales since 1919 have totaled \$3,826,598,000. Over 70 per cent of the increase was from improved prices, which are also reflected in the 31 per cent increase in accounts receivable during the year to \$73,926,000 at year-end. The remainder of the increase is attributed to more units sold.

Sales prices for all products at year-end exceeded the average net realization during the year. The current higher price levels alone, in effect for a full twelve month period, would result in a significant increase in sales without any additional units being sold.

Costs and Expenses. Total operating and delivery costs were up \$12,104,000 primarily because of higher unit sales. These increased costs represented only 13 per cent of the increase in sales after outside smelting charges.

Greater amounts of copper and zinc metal were sold, and operating costs increased with the processing of more zinc as metal through the zinc plant. Outside sales of zinc concentrates were up by about one-third, adding to operating cost and reducing inventories. Average costs per ton to produce concentrates were about unchanged from the previous year.

Tonnage of phosphoric acid sold was up about 25 per cent, while dry fertilizer product sales were about the same as 1972. Production costs per ton were up moderately.

Potash sales tonnage was up substantially, adding to costs and reducing inventories. Sulphur costs were up about 10 per cent primarily due to higher gas costs. Tons sold were down slightly.

Interest expense, up 4 per cent from the previous year, was the result of higher prevailing rates on a lower average outstanding debt. Selling, general and administrative expense increased 13 per cent with expanding company activities. Exploration charged to income was up \$13,492,000 to \$19,721,000 primarily for activities in prior years.

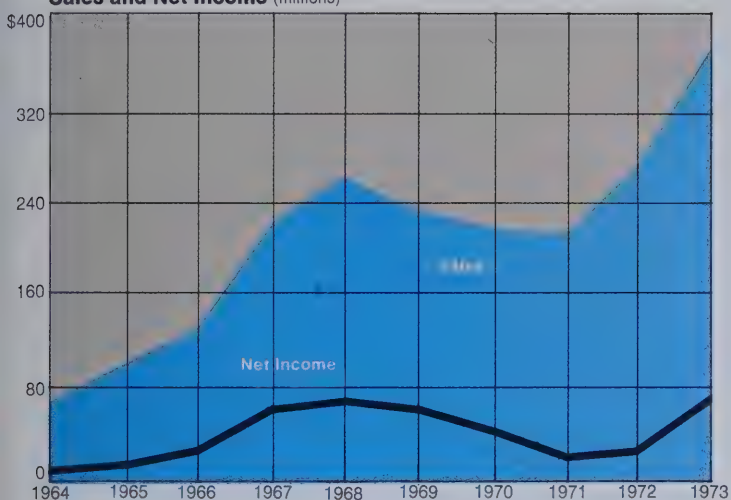
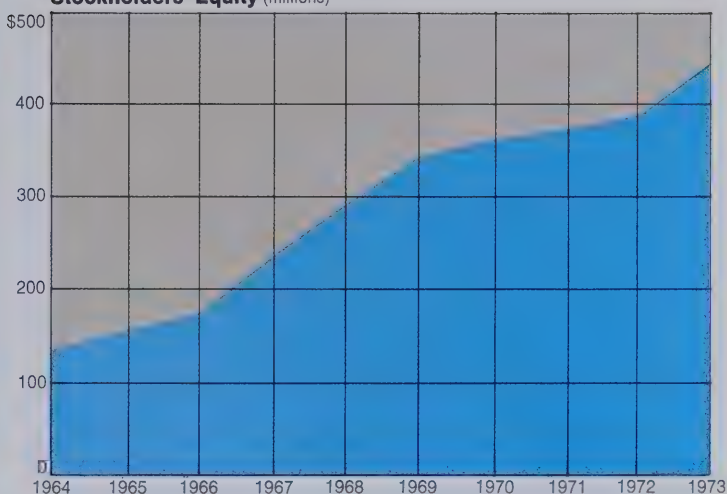
Income tax expense was \$46,750,000, an increase of 109 per cent, because of the greater earnings. The lower effective rate on pre-tax income of 38.7 per cent is principally a result of larger depletion benefits derived from the higher earnings. \$19,850,000 of income tax expense was not payable currently and was added to the reserve for deferred income taxes. The increase in the current liability for income taxes payable to \$26,701,000 includes the Canadian income taxes incurred in 1973, to be paid in 1974. Dominion and Provincial income taxes in Canada for 1974 will also be paid this year.

Capital Expenditures. The company continues to make investments throughout the world. At December 31, 1973, net assets in foreign countries amounted to \$247,239,000. The geographic distribution was: Canada, \$190,942,000 (exclusive of \$99,240,000 Canadian dollar long-term notes payable and \$16,500,000 long-term notes payable of a subsidiary); Mexico, \$21,660,000; Australia, \$21,064,000; Senegal, \$7,694,000; and other countries, mainly the Malagasy Republic, \$5,879,000.

In 1973 \$78,000,000 was spent on capital programs which was approximately the amount originally budgeted. Nearly \$29,000,000 was spent on exploration, most of it on oil and gas. Bonus bids on offshore leases were paid in January for the remainder of the December, 1972 sale, for the June, 1973 sale and in December for nearly half of that month's sale. These totalled \$20,000,000. Expenditures for all mineral exploration projects exceeded \$3,000,000.

In the Metals Division \$21,000,000 was required for capital programs. Development in the underground mine accounted for about half of this. The remainder was divided between conversion costs at the zinc plant, the new tin circuit and normal programs at the open pit mine and at the concentrator.

The total spent at Lee Creek was \$18,000,000, including completion of the 50 per cent expansion of the acid plants. All other capital programs amounted

Sales and Net Income (millions)**Stockholders' Equity** (millions)

to \$10,000,000 and included expenditures on the soda ash development of nearly \$2,000,000, Australian projects of over \$2,000,000 and normal replacement of equipment as required in the operating divisions.

For 1974 an even larger capital expenditure program has been planned. This could exceed \$100,000,000 during the year. Exploration has been budgeted below the 1973 expenditures without any allowance for offshore oil and gas bids. There are always uncertainties in this area and the total amount for exploration will be revised upward depending upon the degree of success in bidding during the year.

At Timmins, \$33,000,000 has been budgeted of which \$11,000,000 may be spent in the zinc plant, \$5,000,000 at the concentrator including nearly \$2,000,000 for additional dams in the tailings area, and \$8,000,000 for underground development and drilling.

Approximately \$26,000,000 is planned for Lee Creek for the additional fourth acid train and new mining and beneficiating equipment. The soda ash project will require approximately \$20,000,000 during the year.

Financing. Cash generated from operations plus the \$15,000,000 of short-term cash investments at December 31, 1973 should be more than sufficient to carry out all programs budgeted for 1974. However, bank lines of credit in the amount of \$54,000,000 were unused at year end, with more available if needed.

In June, 1973, \$70,000,000 (Canadian) and in September \$30,000,000 (Canadian) borrowings on a revolving basis, with interest at $\frac{1}{4}$ of 1% over the bank's minimum commercial lending rate, were converted to term notes for additional six year periods. No principal repayment is required until 1975 when the first of nine equal semi-annual repayments is required on each term note. Interest is $\frac{1}{2}$ of 1% over the bank's minimum commercial lending rate for the term period. The overall in-

terest charge on the Canadian borrowings rate averaged 7.9% during 1973 and was at the rate of 10% at year-end.

The total amount outstanding at year end on the 4.7% notes due in 1989 was \$44,000,000. Annual payments totaling \$2,750,000 are required to be made on these notes. The balance on the 5.75% notes of a subsidiary due in 1986 was \$16,500,000. Semi-annual payments are required on these notes as follows: \$500,000 in 1974; \$625,000 in 1975 through 1985; and \$875,000 in 1986. All but \$2,000,000 of Euro-dollar notes were repaid during the spring, with the final \$2,000,000 repayment made in December. Interest rates on the Euro-dollar borrowings ranged from 6.25% to 11.375% during the year. With the termination of U.S. government regulations on foreign investment, there is no present need for any re-borrowing of Euro-dollars.

The company has a contingent obligation as guarantor of 35 per cent of the borrowings of an affiliate under a credit agreement with banks providing up to \$70,000,000 for use in construction of the Robe River iron ore project. At the end of 1973, borrowings amounted to \$65,000,000. The company is also the guarantor of 35 per cent of the affiliate's borrowing under a credit agreement with the Export-Import Bank of the United States for up to \$5,500,000. At year-end, \$5,346,918 had been used.

There are no agreements with any bank, either in writing or otherwise, that the company is to maintain any demand deposit in a determinable amount which would constitute support for existing borrowing arrangements, including both outstanding borrowings and the assurance of future credit availability. However, it is the company's internal financial policy to maintain demand deposit balances sufficient in the company's judgment to insure the continued availability of credit as the company may require.

Consolidated Balance Sheets**ASSETS**

	December 31 1973	December 31 1972
Current Assets		
Cash	\$ 14,011,000	\$ 14,028,000
Short-term cash investments, at cost which approximates market	15,000,000	2,000,000
Accounts receivable, less allowance of \$830,000 in 1973 and \$814,000 in 1972	73,926,000	56,450,000
Inventories of minerals and products	63,562,000	70,486,000
Materials and supplies	15,581,000	13,028,000
Total Current Assets	<u>182,080,000</u>	<u>155,992,000</u>
 Investments, Advances and Other Assets		
Securities of and advances to affiliates	34,307,000	35,558,000
Advance payments relating to the Utah potash property less amortization of \$2,498,000 in 1973 and \$2,082,000 in 1972	10,007,000	10,568,000
Recoverable Federal income taxes	12,100,000	12,100,000
Notes receivable, advances and other assets	6,927,000	5,013,000
	<u>63,341,000</u>	<u>63,239,000</u>
 Property, Plant and Equipment, at cost		
Lands, contract rights and development	191,739,000	183,141,000
Plants, buildings, machinery and equipment	459,073,000	427,478,000
	<u>650,812,000</u>	<u>610,619,000</u>
Less accumulated depreciation and amortization	187,810,000	168,039,000
	<u>463,002,000</u>	<u>442,580,000</u>
 Unproven properties and exploration projects, less reserve for exploration costs of \$24,384,000 in 1973 and \$11,108,000 in 1972	67,544,000	49,619,000
	<u>530,546,000</u>	<u>492,199,000</u>
	<u><u>\$775,967,000</u></u>	<u><u>\$711,430,000</u></u>

See accompanying notes to consolidated financial statements.

LIABILITIES AND STOCKHOLDERS' EQUITY

	December 31 1973	December 31 1972
Current Liabilities		
Short-term notes payable	\$ —	\$ 2,000,000
Current portion of notes payable	3,750,000	23,750,000
Accounts payable and accrued liabilities	30,263,000	26,382,000
Income taxes payable	26,701,000	1,726,000
Other taxes payable	1,590,000	2,112,000
Deferred income taxes applicable to current assets	5,600,000	6,360,000
Total Current Liabilities	67,904,000	62,330,000
Notes Payable, less current portion		
Euro-dollar notes under revolving credit agreements	—	12,400,000
Canadian dollar term notes, due 1979	99,240,000	99,240,000
5.75% notes, due 1986 (of a subsidiary)	15,500,000	16,500,000
4.70% notes, due 1989	41,250,000	44,000,000
	155,990,000	172,140,000
Deferred credit—proceeds from advance gas sales	10,862,000	11,445,000
Deferred Income Taxes	100,845,000	80,261,000
Stockholders' Equity		
Preferred stock, \$1 par value—Authorized but unissued 5,000,000 shares	—	—
Common stock, without par value—Authorized 45,000,000 shares; issued as follows:		
	1973	1972
Outstanding	30,447,377	30,407,572
In treasury	4,112,623	4,152,428
Issued	34,560,000	34,560,000
	26,175,000	26,175,000
Contributed capital	1,425,000	1,010,000
Retained earnings	437,900,000	383,446,000
	465,500,000	410,631,000
Less cost of treasury stock	25,134,000	25,377,000
Stockholders' Equity	440,366,000	385,254,000
	<u>\$775,967,000</u>	<u>\$711,430,000</u>

Consolidated Statements of Income

	Year ended December 31 1973	Year ended December 31 1972
Gross Sales	\$449,375,000	\$316,048,000
Less outside zinc and lead smelting and refining charges	85,599,000	45,506,000
	<u>363,776,000</u>	<u>270,542,000</u>
Royalties, Interest and Other Income	5,258,000	2,876,000
	<u>369,034,000</u>	<u>273,418,000</u>
 Costs and Expenses		
Operating, delivery and other related costs and expenses	201,026,000	188,922,000
Exploration	19,721,000	6,229,000
Selling, general and administrative	15,062,000	13,323,000
Interest	12,553,000	12,032,000
Income taxes	46,750,000	22,350,000
	<u>295,112,000</u>	<u>242,856,000</u>
Net Income	<u>\$ 73,922,000</u>	<u>\$ 30,562,000</u>
 Net Income per share	\$2.43	\$1.01
Average Number of Shares Outstanding	30,417,336	30,395,912

Consolidated Statements of Retained Earnings

	1973	1972
Retained Earnings at January 1	\$383,446,000	\$371,122,000
Net Income	73,922,000	30,562,000
Cash Dividends (per share 1973 \$.64, 1972 \$.60)	19,468,000	18,238,000
Retained Earnings at December 31	<u>\$437,900,000</u>	<u>\$383,446,000</u>

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Financial Position

	Year ended December 31 1973	Year ended December 31 1972
Funds were provided from		
Net Income	\$ 73,922,000	\$ 30,562,000
Non-cash charges (credits) to income		
Depreciation and amortization and write-off of exploration costs of prior years	35,238,000	22,241,000
Deferred taxes	20,584,000	20,458,000
Other items—net	(424,000)	707,000
Working capital provided from operations	129,320,000	73,968,000
Canadian grant applicable to zinc plant	—	6,894,000
Dispositions of property, plant and equipment	6,974,000	3,320,000
Decrease (increase) in securities of and advances to affiliates	2,319,000	(1,627,000)
Long-term borrowings	—	27,371,000
Transfers of common stock	658,000	239,000
Proceeds from advance gas sales	—	377,000
Increase in accounts payable and accrued liabilities ...	3,881,000	4,444,000
Increase (decrease) in taxes payable and deferred income taxes applicable to current assets	23,693,000	(1,724,000)
Decrease (increase) in inventories	4,371,000	(4,849,000)
Total funds provided	<u>171,216,000</u>	<u>108,413,000</u>
Funds were required for		
Additions to property, plant and equipment	82,896,000	61,862,000
Increase in notes, advances and other assets	243,000	80,000
Decrease (increase) in short-term debt	2,000,000	(2,000,000)
Repayment of long-term debt	36,150,000	23,750,000
Dividends	19,468,000	18,238,000
Increase in accounts receivable	17,476,000	10,299,000
Total funds required	<u>158,233,000</u>	<u>112,229,000</u>
Resulting in an increase (decrease) in cash and short-term cash investments	12,983,000	(3,816,000)
Cash and short-term cash investments		
Beginning of year	16,028,000	19,844,000
End of year	<u>\$ 29,011,000</u>	<u>\$ 16,028,000</u>

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

1. Summary of Accounting Policies

A. Principles of Consolidation. The consolidated financial statements include the accounts of the company and all of its subsidiaries. All significant intercompany balances and transactions of the consolidated companies are eliminated. The investments in two affiliates less than 50% owned are carried on the equity basis. A third investment was accounted for on the equity basis through September 30, 1973, when the company's ownership interest was reduced to 11% through sale of a portion of its investment to the public. Earnings of affiliates recognized on the equity basis were not significant.

For information pertaining to the geographic distribution of the company's net assets reference is made to the first paragraph under "Capital Expenditures" in the Financial Review section of this report.

B. Translation of Foreign Currencies. Current assets and current liabilities are translated at the rate of exchange in effect at the close of the period. Long-term assets are translated at the rates in effect at the dates these assets were acquired, and long-term liabilities are translated at the rates in effect at the dates these obligations were incurred. Exchange adjustments (immaterial in both years) are charged or credited to income.

Revenue and expense accounts for each month are translated at the exchange rate existing on the last business day of the prior month, except for depreciation and amortization which are translated at the rates of exchange which were in effect when the respective assets were acquired.

C. Inventories. Inventories of minerals above ground and products are stated at the lower of average cost or market. Materials and supplies are stated at average cost.

D. Depreciation and Amortization. The company's policy is to depreciate and amortize producing property, plant and equipment over the estimated lives of such assets by the application of the unit-of-production method in the case of mine properties and facilities and the straight-line method in the case of manufacturing facilities. In arriving at rates under the unit-of-production method, commercially recoverable product reserves are estimated by the company's geologists and engineers. Such estimates are revised from time to time as data becomes available to warrant revision. Under the straight-line method, the annual rates applied to the cost of the assets give effect to wear and tear, deterioration from natural causes, and normal obsolescence. Such rates are revised from time to time to conform with the estimated remaining useful lives of the assets. (See also note 2.)

E. Exploration. All expenditures on major exploration projects are capitalized pending determination of commercially

exploitable reserves. The company accumulates costs initially in connection with broad areas of interest prior to property acquisition; thereafter, costs are allocated in the case of oil and gas exploration including all exploratory wells to leases acquired or concessions granted and in the case of mineral exploration to properties acquired and ultimately to specific anomalies. Costs of dry holes on producing oil and gas properties are charged to expense as incurred. Intangible oil and gas drilling costs on successful wells are capitalized, and the tax effects resulting from the deduction of such intangible drilling costs for current income tax purposes are deferred. Major projects determined to be commercially unsuccessful are charged to expense and reserves are provided for all expenditures on minor projects. General administrative expense relating to overall exploration efforts is charged to operations as incurred.

F. Income Tax. The company has deferred to future periods the income tax effect resulting from timing differences between financial statement pretax income and taxable income. The deferred tax on these differences pertains principally to depreciable plant and equipment, development costs incurred on several properties, advance net profits payments related to the Utah potash property, taxes and royalties included in inventories and exploration costs.

Investment tax credits utilized are deferred and amortized over the estimated lives of the related assets. (See also note 3.)

G. Pension Plan. The company has a pension plan covering substantially all employees; including employees in foreign countries. The policy is to fund pension cost accrued. (See also note 6.)

H. Research and Development. Research and development costs are expensed as incurred. These costs are primarily related to improved mineral recovery methods, product betterment and environmental control.

2. Depreciation and amortization of producing property, plant and equipment was \$22,034,000 in 1973 compared with \$20,178,000 in 1972.

3. Income tax expense comprises:

	U.S. Federal	Foreign	Total
1973			
Current taxes	\$ —	\$26,900,000	\$26,900,000
Deferred taxes	(6,550,000)	26,400,000	19,850,000
	<u>(\$6,550,000)</u>	<u>\$53,300,000</u>	<u>\$46,750,000</u>
1972			
Current taxes	\$ —	\$ 1,865,000	\$ 1,865,000
Deferred taxes	(4,164,000)	24,649,000	20,485,000
	<u>(\$4,164,000)</u>	<u>\$26,514,000</u>	<u>\$22,350,000</u>

Because of permanent differences, principally depletion, and the available foreign tax credit the company had no liability for U.S. Federal income taxes in 1973 or 1972.

The deferred tax provided in 1973 includes net charges of \$24,150,000 (\$23,900,000 Foreign) and \$3,400,000 (\$3,300,000 Foreign) resulting from accelerated depreciation and deduction of development costs, respectively, for purposes of determining tax liabilities. Net deferred tax charges in 1972 of \$20,800,000 (\$22,400,000 Foreign) were related principally to accelerated depreciation deductions. The 1973 deferred tax provided also includes a net credit of \$7,300,000 related to provisions for exploration expenses in excess of the amount expected to be included in the U.S. Federal income tax return to be filed for 1973. The recognition of this and the similar credit in 1972 (\$1,600,000) results from inclusion in income consistent with the provisions of Accounting Principles Board Opinion No. 11 of an applicable portion of U.S. deferred tax credits provided in prior years which would have been amortized during the statutory loss carry forward period related to the losses for tax purposes from non-Canadian operations, arising primarily from depletion and exploration expenses.

The income tax rate provided for 1973 operations is 9.3 percentage points below the U.S. Federal statutory rate principally for the following reasons:

A. Canadian income taxes are paid on Canadian source income. The effective Canadian rate on Canadian source income (41%) is 16 percentage points lower than the Canadian statutory rate (Dominion, Provincial, and mining income taxes). The lower effective rate was caused principally by:

1. Canadian statutory exclusions and allowances, principally depletion, which resulted in an 11 percentage point reduction in the rate and

2. Intercompany transactions which reduced Canadian taxable income and thereby caused a further 5 percentage point reduction in the rate.

No U.S. Federal income taxes were provided on Canadian source income since the foreign tax credits arising from the Canadian taxes paid on this income are sufficient to satisfy the U.S. Federal income tax liabilities generated by this income after giving consideration to U.S. depletion deductions and U.S. Federal income tax deductions available to Western Hemisphere Trade Corporations (WHTC). Reductions of the U.S. Federal income tax rate as applied to Canadian source income were estimated as being related to depletion 8 percentage points and WHTC 9 percentage points.

B. Depletion deductions earned on non-Canadian operations resulted in an additional reduction of 3 percentage points below the U.S. statutory rate.

The resulting average 38.7% rate at which income taxes

are provided reflects not only the variations in statutory rates, but also the variations in sources from which income is obtained.

Investment tax credit carryforwards of approximately \$6,950,000 are available as credits against future U.S. Federal income taxes. Of this amount \$5,200,000 expires in 1976. The extent of utilization of these investment tax credit carryforwards is uncertain at this time.

The Internal Revenue Service has examined the company's tax returns for the years 1958 through 1965. A revenue agent's report previously received for the period 1966 through 1968 is now in the process of being amended by the Service. Concurrently, the returns filed for the years 1969 through 1971 are being examined. The Service has challenged or is proposing adjustments to the company's treatment of several items in the tax returns filed for the years 1958 through 1971. Should the Service prevail income reported to shareholders for the years 1973 and 1972 would be reduced by approximately \$6,250,000 and \$2,700,000 respectively and prior years' income would be reduced approximately \$11,850,000 after applicable reductions of deferred income taxes provided in prior years; deferred income tax credits of \$8,800,000 would be provided which would be amortized to income in future years; payments of U.S. Federal income taxes and interest in the amount of \$33,800,000 would be required and the amount of recoverable U.S. Federal income tax would be reduced by \$2,550,000. Numerous issues have been raised, the most significant of which pertains to the company's treatment of a tax paid to Ontario on income from the Kidd Creek mine. The company has claimed this tax as a credit against U.S. Federal income taxes. The Service asserts this tax should be a deduction in arriving at U.S. taxable income. The company intends to contest all major issues and expects to prevail.

4. For certain information regarding long term debt and a guaranty, reference is made to the second through fourth paragraphs under "Financing" in the Financial Review section of this report.

Agreements relating to the notes payable and the guaranty described in the Financial Review section contain provisions restricting the payment of cash dividends or the acquisition for value of shares of the company's stock. Under the most restrictive provision of such agreements, retained earnings in the approximate amount of \$314,500,000 at December 31, 1973 was in excess of such restrictions. Additionally, certain of the agreements require the maintenance of \$30,000,000 working capital as defined, which requirement was substantially exceeded at December 31, 1973. The agreements also provide that funded indebtedness, including the guaranty of obligations of others for borrowed money, may not exceed stockholders' equity plus deferred Federal income taxes.

5. Under a stock option plan approved by the stockholders in April, 1961, options were granted to officers and employees of the company and subsidiaries to purchase shares of the company's stock. Options become exercisable, as to 40 percent of the total granted eighteen months after date of grant, as to 70 percent three years after date of grant, and as to 100 percent four years after date of grant and expire five years after date of grant.

During the Year Options:	1973		1972	
	Shares	Option Price Per Share	Shares	Option Price Per Share
Became exercisable as to . .	43,200	\$15 ¹ / ₁₆ -16 ¹ / ₁₆	55,900	\$15 ¹ / ₁₆ -43 ¹ / ₁₆
Were cancelled or expired as to . . .	69,600	15 ¹ / ₁₆ -43 ¹ / ₁₆	10,000	15 ¹ / ₁₆ -43 ¹ / ₁₆
Were exercised as to	30,075	15 ¹ / ₁₆ -20	1,600	15 ¹ / ₁₆

At December 31, 1973, there were 133,725 shares under option, 77,925 of which were exercisable at prices ranging from \$15 15/16 per share to \$20 per share. The plan terminated as to the grant of additional options in 1971.

Under a stock option plan approved by the stockholders in April, 1972, options may be granted to officers and key employees of the company and subsidiaries to purchase up to 750,000 shares. In addition to granting "qualified stock options," which expire five years after date of grant, the company may also grant "non-qualified stock options" whose term shall not exceed ten years. No options under the plan were granted in 1972. During 1973 there were 194,550 "qualified stock options" granted at \$22 3/4 per share, of which 2,000 were cancelled during the year. None of these shares became exercisable during the year. They become exercisable as to 40 percent of the total granted eighteen months after date of grant, as to 70% three years after date of grant, and as to 100% four years after date of grant.

In April 1970, stockholders approved a Career Incentive Stock Plan. Under the Plan awards not to exceed 250,000 shares may be made out of treasury stock to officers and other key employees of the company and its subsidiaries. In 1973, awards of 30,550 shares were made, awards of 560 shares previously granted were cancelled, and 9,730 shares were transferred to the employees under the plan. In 1972, awards of 29,025 shares were made, awards of 650 shares previously granted were cancelled and 7,065 shares were transferred to the employees under the plan. Awards outstanding at December 31, 1973 and December 31, 1972 amounted to 77,845 shares and 57,585 shares respectively. An amount equal to the fair market value of the shares at the time of award is being charged to income over the period in which the awards will be earned. Accordingly \$343,000 was charged to income during 1973 (\$263,000 in 1972). Shares are transferred 20% upon the

second anniversary of the award and each anniversary thereafter.

In 1973 contributed capital increased by \$415,000 (\$107,000 in 1972) and treasury stock decreased by \$243,000 (\$132,000 in 1972) due to the transfer of company stock under the stock option and career incentive plans.

The shares reserved for issuance under the above plans amounted to 1,116,930 at December 31, 1973 and 1,226,335 at December 31, 1972.

6. Pension expense for 1973 and 1972 was \$4,514,000 and \$3,915,000 respectively. The market value of the Plan assets, which are fully funded with trustees, exceeded the actuarially computed value of vested benefits at December 31, 1973 and 1972.

7. Rent expense amounted to \$7,911,000 in 1973 and \$7,300,000 in 1972 after receipts for subleases of \$344,000 and \$153,000 respectively. Of these amounts \$4,168,000 in 1973 and \$3,824,000 in 1972 pertained to vessels used in the transportation of liquid sulphur and were determined on the basis of vessel usage.

The minimal rental commitments under all noncancelable leases as of December 31, 1973 were as follows:

	(amounts in thousands)				
	1974	1975	1976	1977	1978
Liquid sulphur tankers	\$2,681	\$2,681	\$ 979	—	—
Rail cars and equipment . . .	1,235	1,199	950	\$ 625	\$ 513
Office space	894	853	799	829	831
Other	299	174	58	12	1
	<u>\$5,109</u>	<u>\$4,907</u>	<u>\$2,786</u>	<u>\$1,466</u>	<u>\$1,345</u>
		1979 through 1983			1984 through 1988
Liquid sulphur tankers		—			—
Rail cars and equipment . . .		\$1,672			\$ 750
Office space		3,975			989
Other		5			3
		<u>\$5,652</u>			<u>\$1,742</u>

The above amounts are net of rentals to be received on sublease of office space of \$219,000 annually for the years 1974 through 1978, \$1,093,000 1979 through 1983 and \$603,000 1984 through 1988. The minimum rental commitments for noncapitalized financing leases consist of the amounts reported for Liquid sulphur tankers and Rail cars and equipment reported above. There are no commitments for rentals beyond the 1984 through 1988 period.

The effect on net income if all non-capitalized financing leases were capitalized, related assets were amortized on a straightline basis and interest cost was accrued on the basis of the outstanding lease liability is not material.

8. Gross sales less outside zinc and lead smelting and refining charges included approximately \$26,000,000 in 1972 for zinc metal purchased at current market prices and resold. Such sales were not significant in 1973.

Accountants' Report

PEAT, MARWICK, MITCHELL & CO.
CERTIFIED PUBLIC ACCOUNTANTS
345 PARK AVENUE
NEW YORK, NEW YORK 10022

To the Stockholders of Texasgulf Inc.

We have examined the consolidated balance sheets of Texasgulf Inc. and consolidated subsidiaries as of December 31, 1973 and December 31, 1972 and the related statements of income, retained earnings and changes in financial position for the two years ended December 31, 1973. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheets and consolidated statements of income, retained earnings and changes in financial position present fairly the financial position of Texasgulf Inc. and consolidated subsidiaries at December 31, 1973 and December 31, 1972 and the results of their operations and changes in their financial position for the two years ended December 31, 1973, in conformity with generally accepted accounting principles applied on a consistent basis.

February 22, 1973

Peat, Marwick, Mitchell & Co.

Ten Year Financial Summary

Income	1973	1972	1971
(in thousands of dollars)			
Gross sales	\$449,375	\$316,048	\$271,324
Less outside zinc and lead smelting and refining charges . .	85,599	45,506	53,625
	<u>363,776</u>	<u>270,542</u>	<u>217,699</u>
Royalties, interest and other income	5,258	2,876	3,250
Operating, delivery and other related costs and expenses, including exploration	220,747	195,151	159,645
Selling, general and administrative expenses	15,062	13,323	12,981
Interest expense	12,553	12,032	8,847
Income taxes	46,750	22,350	14,250
Income before extraordinary charge	73,922	30,562	25,226
Extraordinary charge net of applicable income taxes	—	—	(4,675)
Net income	73,922	30,562	20,551
 Financial Position			
(in thousands of dollars)			
Current assets	182,080	155,992	144,660
Current liabilities	67,904	62,330	57,610
Working capital	114,176	93,662	87,050
Mineral and product inventories	63,562	70,486	67,792
Property, plant and equipment—net	530,546	492,199	462,367
Total assets	775,967	711,430	670,016
Notes payable, less current portion	155,990	172,140	168,519
Stockholders' equity	440,366	385,254	372,691
 Other Data*			
Per Share of Common Stock—			
Income before extraordinary charge	2.43	1.01	.83
Extraordinary charge, net of tax	—	—	(.15)
Net income	2.43	1.01	.68
Dividends64	.60	.60
Number of stockholders	64,841	80,247	82,511
Average number of shares outstanding	30,417,336	30,395,912	30,386,007

*Adjusted for three for one stock split at May 6, 1968.

1970	1969	1968	1967	1966	1965	1964
\$283,047	\$301,769	\$309,915	\$253,099	\$132,718	\$ 98,981	\$ 70,370
63,588	62,466	43,957	30,356	2,381	—	—
<u>219,459</u>	<u>239,303</u>	<u>265,958</u>	<u>222,743</u>	<u>130,337</u>	<u>98,981</u>	<u>70,370</u>
10,868	10,760	7,953	3,778	3,338	3,301	2,906
143,060	147,574	155,932	125,864	84,415	68,763	52,173
11,649	11,801	10,391	10,120	9,765	7,362	8,578
7,545	6,872	6,603	6,835	4,732	2,597	2,304
22,250	22,350	29,500	20,700	6,900	4,350	338
45,823	61,467	71,485	63,002	27,863	19,210	9,883
—	—	—	—	—	—	—
45,823	61,467	71,485	63,002	27,863	19,210	9,883
182,306	226,306	199,625	92,834	57,390	64,636	97,340
94,636	53,375	48,891	25,657	26,396	14,714	12,704
87,670	172,931	150,734	67,177	30,994	49,922	84,636
57,907	49,240	37,611	28,999	18,628	19,738	24,026
419,429	310,215	300,179	295,245	278,410	148,862	92,380
647,146	576,326	529,027	418,072	364,740	243,019	220,779
119,900	117,346	125,500	115,000	135,000	55,000	55,000
370,372	342,781	297,876	235,565	175,556	151,363	135,709
1.51	2.02	2.36	2.08	.92	.64	.32
—	—	—	—	—	—	—
1.51	2.02	2.36	2.08	.92	.64	.32
.60	.55	.33⅓	.13⅓	.13⅓	.13⅓	.13⅓
79,728	72,149	62,001	48,529	49,553	47,911	50,821
30,386,007	30,384,352	30,323,681	30,223,094	30,126,680	30,055,922	30,037,566

Officers and Staff

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Chairman of the Board
and Chief Executive Officer

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Raleigh, North Carolina

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Senior Vice President
Western Operations
Calgary, Alberta

Walter Holyk
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Metals Division
Toronto, Ontario

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Kidd Creek Operations
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John G. Stengel
John S. Taylor

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Data Processing Manager, Raleigh
Assistant to the President

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F. Wayne White
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Assistant Manager
Assistant Manager
Compensation Manager

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John T. Duffy
James J. Finn
Charles J. Gillem, Jr.
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John E. Johnson
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Assistant Controller—Taxes
Assistant Controller—Audits & Budgets
Assistant Controller—General Accounting
Insurance Manager
Assistant Treasurer
Assistant Treasurer
Credit Manager
Assistant Controller—Accounting Policy

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Earl L. Huntington
David L. James
Ted G. White
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Counsel
Counsel, Houston
Counsel and Assistant Secretary
Counsel and Assistant Secretary
Counsel, Houston
Counsel and Assistant Secretary

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Assistant General Manager
Rail Equipment Manager
Marine Equipment Manager
Terminals Manager
Distribution Manager
Transportation Manager

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Regional Manager, Toronto
Regional Manager, Perth, Australia

Public Relations

William D. Askin

Assistant Manager, Public Relations, and Editor, Triangle Magazine

Research and Engineering

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Arthur Gloster
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Research Laboratory Manager, Golden, Colorado
Assistant Manager
Assistant Manager
Assistant Manager

Operations

Agricultural Division

Raleigh, North Carolina

John H. Wiley
Robert B. Gibbs
Anderson O. Harwell
Thomas M. McNally, Jr.
Jack L. Milani, Jr.
Thomas L. Perkins
Roy F. Underwood

Marketing Manager, Fertilizer Materials
Domestic Sales Manager, Fertilizer Materials
Technical Salesman, Fertilizer Materials
Accounting Supervisor
Market Planning Manager
International Sales Manager, Fertilizer Materials
Sales Systems Manager

Phosphate

Aurora, North Carolina

James R. Paden
Scott F. Stidham
Cameron W. Albin
June W. Crawford
Clyde W. Davis, Jr.
Robert J. Forest
Harvey A. Franz, Jr.
David B. McDonald
Earl M. Mason
John R. Pyburn
James N. Richardson
Frank H. Robinson
Brooks M. Whitehurst

Production Superintendent
Administrative Superintendent
Acid Plants Superintendent
Engineering Superintendent
Maintenance Superintendent
Purchasing Agent
Chief Accountant
Mine Superintendent
Supervisor of Distribution
Employee Relations Superintendent
Mill Superintendent
Fertilizer Plants Superintendent
Technical Services Superintendent

Armstrong Forest Division

Johnsonburg, Pennsylvania

Arthur L. Bennett

General Manager

Frasch Sulphur Division

Houston, Texas

Frank J. Claydon, Jr.
H. Newton Cunningham, Jr.
V. Benner Dowe
Walter B. Gillette
Earl W. Hanna

Sales Manager, Sulphur
Assistant Sales Manager, Sulphur
Government Relations Manager
Assistant Sales Manager, Sulphur, New York
Assistant to the Senior Vice President

Newgulf, Texas

Byron N. Soderman
Douglas C. Anders
Kenneth D. Bishop
R. Lindsay Carter, Jr.
Murray O. Clapp
Edward H. Conroy
Ernest M. Dunn
Wayne Herrington
Edmond Herschap, Jr.
Robert L. McDaniel
Alec C. Mayfield
Royce L. Northcutt
Lloyd L. O'Neal, Jr.
Noe Sonnier
Raymond J. Staffa
Clinton P. White

Assistant General Manager
Accounting Manager
Maintenance Manager
Purchasing & Warehousing Manager
Traffic Manager
Quality Control Manager
Mine Manager, Moss Bluff, Texas
Engineering Manager
Employee Relations Manager
Terminal Manager, Beaumont, Texas
Power Plant Manager
Field Manager
Mine Manager, Bully Camp, La.
Beaumont Operations Manager, Beaumont
Administrative Assistant to the General Manager
Public Relations Manager

Metals Division

Toronto, Ontario

Kent D. Hoffman
Bruce W. Gilbert
Leroy T. Kling, Jr.
H. Devon Smith

Sales Manager, Metals
Assistant Sales Manager, Metals
Accounting Supervisor
Public Relations Manager

Ecstall Mining Limited

Timmins, Ontario

Barton A. Thomson
Michael P. Amsden
David G. Baskin
J. Eric Belford
George C. Coupland
Frank S. Gaunce
Donald F. Grenville
G. Merle T. Marshall
Angelo Matulich
Gerard F. O'Halloran
Alan G. Perry
Albert W. Scragg

Assistant General Manager
Mill Superintendent
Traffic Superintendent
Mine Superintendent, Underground
Mine Superintendent, Surface
Zinc Plant Superintendent
Employee Relations Superintendent
Engineering Superintendent
Chief Geologist
Maintenance Superintendent
Assistant to the General Manager
Chief Accountant

Oil and Gas Division

Houston, Texas

Weyman W. Crawford
Robin L. Lyon
Maurice Mazurkewich

Assistant General Manager
Regional Manager
Regional Manager, Calgary

Western Operations

Denver, Colorado

James A. L. White

Assistant to the Senior Vice President

Potash

Moab, Utah

Robert L. Curfman
Anthony J. Fratto
Albert K. Gentry
Frank J. Peterzell
Gary C. Pickard
Everett L. Schumaker

Manager
Maintenance Superintendent
Operations Superintendent
Safety Supervisor
Chief Accountant
Purchasing Agent

Recovered Sulphur

Calgary, Alberta

Frederic J. Ronicker
Edward W. Plum
Elgin D. Bell
Donald H. Davies
Dennis B. Kanten
T. Stafford Mosher
James J. Rennie
Douglas H. Whittaker

Manager
Assistant Manager
TGS Hydrocarbons Manager
Plant Superintendent, Okotoks, Alberta
Traffic Coordinator
Employee Relations and Office Manager
Traffic Superintendent, Whitecourt, Alberta
Vat Superintendent, Whitecourt

Soda Ash

Granger, Wyoming

Robert E. Clagett
Paul V. Bethurum
Kenneth B. Hutchinson
James A. King
Richard C. Reynolds, Jr.

Project Manager, Denver
Plant Manager
Mine Superintendent
Mill Superintendent
Employee Relations Superintendent

Leo J. Miller

President, Denver

Subsidiaries Australian Inland Exploration Company

Ecstall Mining Limited

Richard D. Mollison
Walter Holyk

President
Executive Vice President, Toronto

Marandoo Mining Co. Ltd. and Rhodes Ridge Mining Co. Ltd.

Kenneth J. Kutz
J. G. Pinkerton

President
Resident Manager, Perth, Australia

Texasgulf Export Corporation

Michael C. Hughes

Vice President, London, England

Affiliates

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James W. Estep

Tg Representative, Calgary

Cia. Exploradora del Istmo, S.A. (C.E.D.I.)

Robert M. Stoy

Tg Chief Technical Adviser to
C.E.D.I., Coatzacoalcas, Mexico

Sulphur Export Corporation

John W. Hall, Jr.
S. Keith Hardwick

President
Vice President

Directors

Alex E. Barron

President
Canadian General Investments Limited
Toronto, Ontario

Harold Decker

Director of Halliburton Company,
Member of the Executive Committee and
Director of Eastex Inc., and
Director of Reed Tool Company
Houston, Texas

Louis R. Desmarais

Chairman and Chief Executive Officer
Canada Steamship Lines Limited
Montreal, Quebec

Charles F. Fogarty

Chairman of the Board and
Chief Executive Officer
New York, New York

John P. Gallagher

President
Dome Petroleum Limited
Calgary, Alberta

H. Anthony Hampson

President and Chief Executive Officer
Canada Development Corporation
Toronto, Ontario

John M. Meyer, Jr.

Director of
J. P. Morgan & Co. Incorporated and
Morgan Guaranty Trust Company of
New York, New York

Richard D. Mollison

President
New York, New York

Allan Shivers

Chairman of the Board
Austin National Bank
Austin, Texas

Donald B. Smiley

Chairman of the Board and
Chief Executive Officer
R. H. Macy & Co., Inc.
New York, New York

Claude O. Stephens

Consultant
New York, New York

Honorary Directors

Edward K. Brass

Financial Adviser
New York, New York

George S. Eccles

Director, President and
Chief Executive Officer of
First Security Corporation
Salt Lake City, Utah

Thomas M. Phillips

Senior Partner
Baker & Botts
Houston, Texas

Lowell C. Wadmond

Partner
White & Case
New York, New York

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